

Factors That Influence Financial Performance with Capital Expenditure as a Moderating Variable in the Regency / City Government of Sumatera Utara Province

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ABSTRACT

This study aims to analyze and evaluate (1) comprehensive regional development to produce regional growth that is in line with the regional budget; (2) making good and appropriate financial management so that the improvement of the economic development process has an impact after the implementation of the regional autonomy policy; (3) Each region can be responsible for regional authority in regional development so that good financial management is expected to be a reality for local governments to support their growth and development; (4) Increasing the potential of financial performance and this ability is indicated by compliance with specific rules and regulations as stipulated by SAP when managing financial.

This research was conducted in the district /city government in the area of North Sumatra Province. The population used was 33 districts/cities (25 districts and eight cities) with the year of observation for five years starting from 2018 to 2022 the number of observations was obtained as many as 165, the data used was secondary data, the data collection method which was the data documentation method was obtained From the Directorate General of Finance Balance of the Ministry of Finance of the Republic of Indonesia, the website of the Central

Statistics Agency, the website of each regional government that is the research sample, and other related sources.

The results of this study indicate that (1) Local own-source revenue has a significant positive effect on financial performance; (2) operating expenditure has a significant positive effect on financial performance; (3) Revenue sharing fund has a significant positive effect on financial performance; (4) General Allocation Fund has no significant effect on financial performance; (5) Special Allocation Fund has a significant positive effect on financial performance; (6) the working period of regional heads has no significant effect on financial performance; (7) capital expenditure can moderate the effect of local own-source revenue on financial performance; (8) Capital expenditure cannot moderate the effect of operating expenditure on financial performance; (9) Capital expenditure can moderate the effect of revenue sharing fund on financial performance; (10) Capital expenditure cannot moderate the effect of general allocation funds on financial performance; (11) Capital expenditure can moderate the effect of special allocation funds on financial performance; (12) Capital expenditure cannot moderate the effect of the working period of regional heads on financial performance.

Keywords: good governance, financial management system, regional autonomy policy, financial performance.

INTRODUCTION

The central government established an autonomy policy due to its inability to oversee regional development. To produce regional growth that is in line with the regional budget, the improvement of the economic development process has an impact after the implementation of the autonomy policy and makes reasonable and appropriate financial management. The region itself is responsible for regional authority in regional development. Good financial management is expected to become a reality for local governments to support their growth and development.

The financial management of a region is considered an essential component of every developing country. Its implementation shows the success of local governments, and optimal performance shows the success of development. It can also show regional financial independence from the central government to increase the potential for increasing financial performance. This ability is indicated by compliance with specific rules and regulations stipulated by SAP when managing finances. Good financial performance is shown by the ability of a region or nation to manage its finances well. Financial performance is the most crucial factor in showing the effectiveness and efficiency of an activity to achieve its goals (Izzati et al., 2021). Good financial performance is indicated if a government or region manages its finances well. However, poor financial performance can be indicated if finance is managed incorrectly. It can cause the area to have poor financial performance or even decrease. Because performance measures success, it is important for companies to achieve their goals (Khasanah et al. 2021).

Various studies on variables such as independent law, economic conditions, and inter-government relations determine the performance of local governments. The

author of this study focuses on six variables that impact local government financial performance: Variables of Local own-source revenue, Operational Expenditures, Revenue Sharing Funds, General Allocation Funds, Special Allocation Funds, and the Work Period of The Regional Head. Capital expenditure can be a significant moderation variable because it can strengthen regional income, operating expenditure, general allocation funds, special allocation funds, and regional head periods for financial performance.

Some previous studies, such as those conducted by Prastiwi and Aji (2020), found that the variables of regional original income had a significant effect. It means that high regional income will increase public services because it can affect how the government is run, making the payment area independent of the central government. It will also affect the proportion of excellent regional independence, which will affect financial performance to increase. However, Febrianto and Trisnawati (2018) discussed in their research that local own-source revenue did not have a significant effect. In addition, Priyono et al. (2020) discuss that the General Allocation Fund and Special Allocation Funds can significantly affect financial performance.

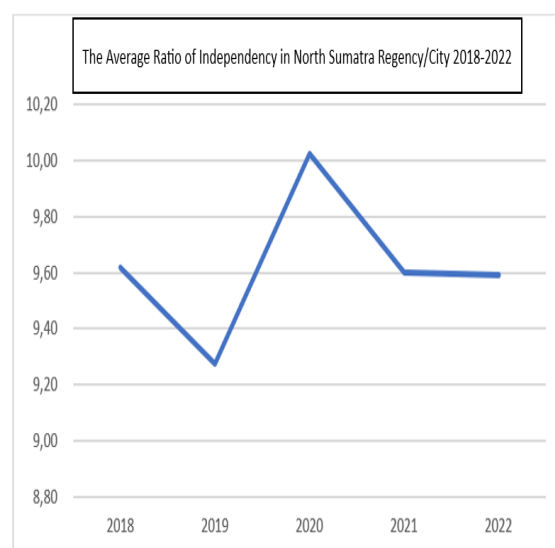


Figure 1. Graph of Average Ratio of Independency in North Sumatra Regency/City 2018-2022

Source: Data Processed by Researchers

This research was conducted in regencies/cities in North Sumatra Province for several reasons, including North Sumatra Province having a variety of economic levels and densely populated provinces, making regencies/cities in North Sumatra Province an exciting object to examine the influence of financial management and independence autonomy in regional government. The province has a combination of urban and regional areas, each with different economic activities, providing an understanding of financial policies that can impact different regions. In addition, North Sumatra experienced significant economic growth and development over the years, but there are still challenges in financial management and regional development. What is more, the Pandemic, which began to hit at the end of 2019 and continued until 2021, could be a significant factor that affected the regional economy. The decline in the ratio of independence after 2020 may be caused by the impact of pandemics that hamper economic activities and development. This research is expected to provide insights that can be applied in other regions in Indonesia and contribute to improving the financial performance of local governments.

From the background described above, this research has the title: "Factors that Influence Financial Performance with capital expenditure as a moderating variable in the Regency/City Government of North Sumatra Province".

LITERATURE REVIEW

Regional Government Financial Performance

Government Regulation Number 12 of 2019 stated in Article 1, paragraph 2 that good regional financial management is needed, requires a sustainable management process and is carried out well. It is because planning, implementing, and controlling regional finances is considered a unit (Maulina et al. 2021). The Regional Government Agency's performance is related to its financial managers' performance

(Wahyudin 2020).

Indicators for analyzing the performance of regional government in managing regional finances are by analyzing financial ratios to the APBD that have been determined and implemented. One of the analyses of financial ratios to measure the financial performance of regional governments is the ratio of independence (Halim, 2012). Regional financial independence indicates the ability of regional governments to finance their own government activities, development, and services that have paid taxes and levies as a source of regional income. Regional financial independence is shown by the size of the local own-source revenue compared to regional income originating from other sources such as central government assistance (central transfer) or loans. The ratio of independence also illustrates regional dependence on external funding sources, especially from the central and provincial governments. The higher the ratio of regional independence, the lower the level of dependence on external assistance (especially the central and provincial governments), and vice versa. The higher the independence ratio, the higher the community participation in paying regional taxes and levies, which are the main components of local own-source revenue. According to Halim (2012), the formula to measure the ratio of regional financial independence is as follows:

Independency Ratio

$$= \frac{\text{Original Local Government Revenue}}{\text{Total Income}}$$

Local Own-Source Revenue

Law No.1 of 2022 Article 1, paragraph 20 states that the authorized source collects local own-source revenue, including regional taxes and levies. This term refers to increased income because of this cost. Regional income earned from maximizing regional cash flow and supporting the initiative to improve public services in the regional government (Andjarwati et al.

2021). Saputri and Kurnia (2020) recorded 2020 that the money collected through regional taxes and levies was referred to as Regional Original Revenue.

Local own-source revenue is an actual income from the ability of the regional government because local own-source revenue is the central mainstay for the APBD financing, so local own-source revenue gives an overview of the strengths and capabilities of the regional government in providing funds for development in the region concerned (Patriati, 2010). The higher the local own-source revenue, the greater the funds available for regional development so that the regional government can provide better services to the community.

Operating Expenses

Operations expenditure is defined in Government Regulation Number 12 of 2019 as a budget expenditure for the daily activities of the local government that provides short-term benefits. Details of the classification of operating expenditure are described in Article 56, paragraph (1) of Government Regulation Number 12 of 2019, namely:

- a) Employee expenditure
- b) Expenditure for Goods and Services
- c) Interest expenditure
- d) Subsidized expenditure
- e) Grant expenditure
- f) Social assistance expenditure

Fiscal Balance

Balancing funds contributes to most of the APBD funds as a source of regional income. Some regions even have a general allocation fund greater than local own-source revenue. By using regional regulations, an increase in financial performance can come from the local government based on good financial management (Nugraha & Trisnawati, 2019). There are three types of distribution of balance funds transferred by the central government for local governments according to Government Regulation Number 12 of 2019, namely General

Allocation, Special Allocation Funds, and Revenue Sharing Funds.

a) General Allocation Fund

According to Government Regulation No. 12 of 2019, General Allocation Funds are interpreted as "funds sourced from the APBN allocated with the aim of equitable financial capacity between regions to fund regional needs in the context of implementing decentralization". The magnitude of the general allocation fund received by each region varies depending on the fiscal gap owned by the region. The fiscal gap is the amount of regional household financing the local government cannot meet. Even though the general allocation fund originated from the central government, its use was fully submitted to the Regional Government, commonly referred to as a "Block Grant" (Patarai, 2017).

b) Special Allocation Fund

The Special Allocation Fund is a balance fund whose use is prioritized for the development of regional infrastructure, which is the main focus of the central government to be realized. Facilities that are a priority for the central government include roads that connect remote villages to public facilities, main irrigation channels, investment or long-term infrastructure development, and facilities needed by transmigration areas. Government Regulation Number 12 of 2019 defines special allocation fund as "funds sourced from the APBN revenue allocated to certain regions to help to fund special activities which are government affairs that are the regional authority".

c) Revenue Sharing Fund

Revenue-sharing funds are from the State Budget in the form of state revenue originating from managing central government assets in the area concerned. Based on Government Regulation Number 12 of 2019 concerning Regional Financial Management, revenue-sharing funds are allocated to blood with a certain

percentage to reduce the imbalance of fiscal capabilities between the central government and regional governments. The allocation of revenue-sharing funds is based on the principle of by origin and the principle of actual. The principle by origin is used in the distribution of revenue-sharing funds where the region producing state revenue gets a part with a certain percentage of greater percentage when compared to other regions in one province. Other areas are given in the revenue-sharing fund section based on equity. The principle of actual is the principle of allocation of revenue sharing fund where the amount of revenue sharing fund is channeled to the regions, both the producing region and those that receive the allocation of equity based on the realization of the deposit of tax state revenue and non -tax revenue for the current fiscal year (Directorate of Balance Funds of the Ministry of Finance, 2017).

Capital Expenditure

Digdowiseiso et al. (2021) concluded that capital expenditure is a productive spending activity measured by how the local government uses its budget to increase regional income. Increasing capital allocation in percentage can signal that the local government effectively encourages regional growth.

The APBD divides regional expenditure into direct and indirect categories. Capital expenditure is to buy long-term assets such as buildings, land, equipment, and intangible goods. Significant capital expenditure reflects the number of infrastructure and facilities built. So that more and more development is carried out, it will improve services to the community so that regional performance will be better. The high amount of capital expenditure indicates that the regional government has increased expenses for long-term assets, so the impact on the performance of the regional government will be felt several years after the capital expenditure occurs.

Framework

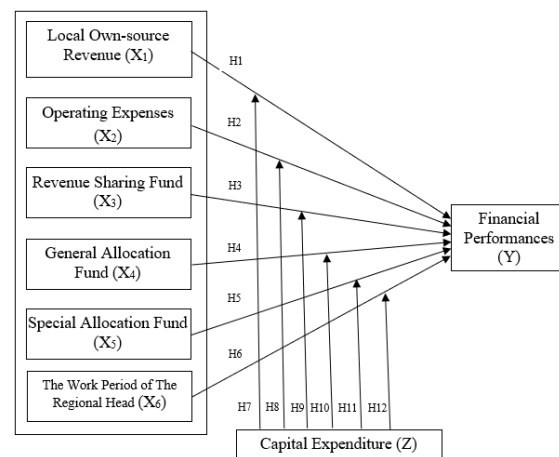


Figure 3. Conceptual Framework

H1: local own-source revenue has a significant effect on local government financial performance

H2: Operating expenditure has a significant effect on local government financial performance

H3: Revenue-sharing fund has a significant effect on local government financial performance

H4: General allocation fund has a significant effect on local government financial performance

H5: Special allocation funds have a significant effect on local government financial performance

H6: The working period of regional heads has a significant effect on local government financial performance

H7: Capital expenditure can moderate the relationship between local own-source revenue and regional government financial performance

H8: Capital expenditure can moderate the relationship between operating expenditure and regional government financial performance

H9: Capital expenditure can moderate the relationship between revenue-sharing funds and regional government financial performance

H10: Capital expenditure can moderate the relationship between general allocation funds and regional government financial performance

H11: Capital expenditure can moderate the relationship between special allocation funds and regional government financial performance

H12: Capital expenditure can moderate the relationship between the working period of regional heads and regional government financial performance

MATERIALS & METHODS

This research is causal. Sekaran (2009) states that a causal study is a study where researchers want to find the cause of one or more problems. This study uses a causal design that helps analyze the relationship between one variable and another. The purpose of the researcher conducting a causal study is to be able to state that variable X causes variable Y.

The population used in this study was the regency/city government in North Sumatra Province. The population used in this study was 33 districts/cities (25 districts and eight cities), with five years of observation, starting from 2018 to 2022, so the number of observations was 165.

The data collection method used in this study is the documentation method. Data was obtained from the Directorate General of Financial Balance of the Ministry of Finance of the Republic of Indonesia, the website of the Central Statistics Agency (BPS), the website of each regional government that became the research sample, and other related sources. Data analysis techniques in this study use SPSS 26.0 software aids.

RESULT

A. Classic Assumption Test

In this study, some variables must be transformed to ensure the regression model meets the classic assumption test. This transformation aims to overcome problems that may arise, such as heteroscedasticity, non-linearity, and abnormal distribution. The transformation applied to the variables is as follows:

- Local own-source revenue (X1) transformed into SQRT_X1 (Quadratic

root of X1)

- Operating expenditure (X2) transformed into sin_lnx2 (sine from natural logarithm X2)
- Revenue sharing fund (X3) transformed into sin_LNX3 (sine of Natural Logarithm X3)
- General allocation fund (X4) transformed into SQRT_X4 (Quadratic root of X4)
- Special allocation fund (X5) transformed into LN_X5 (Natural Logarithm of X5)
- Working period (X6) was transformed into LN_X6 (Natural Logarithm of X6)

1. Normality Test

Table 1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		165
Normal Parameters ^{a,b}	Mean	.000000
	Std. Deviation	.01076682
Most Extreme Differences	Absolute	.059
	Positive	.042
	Negative	-.059
Test Statistic		.059
Asymp. Sig. (2-tailed)		.200 ^c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: SPSS Software Results

The table above shows the results of the Kolmogorov-Smirnov One-Samples test conducted at Unstandardized Residual to determine the normality of the distribution. This test was carried out with a sample of 165 observations. The significance value of the Kolmogorov-Smirnov test is 0.200, greater than the significance level of 0.05. From this test, it can be assumed that the distribution of data is normal or the fulfillment of normality assumptions.

2. Multicollinearity Test

Table 2. Multicollinearity Test Results

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Sqrt_X1	.103	9.665
	Sin_LnX2	.258	3.872
	Sin_LnX3	.214	4.680
	Sqrt_X4	.139	7.179
	Ln_X5	.306	3.273
	Ln_X6	.982	1.018

a. Dependent Variable: Y

Source: SPSS Software Results

Symptoms of multicollinearity can be seen from the tolerance value > 0.1 and the value of variance inflation factor (VIF) < 10 in each independent variable. In the table above, variables x1, x2, x3, x4, x5, and x6 have a tolerance value > 0.1 and the VIF value < 10. From this test, it can be assumed that there are no symptoms of multicollinearity or the fulfillment of multicollinearity assumptions.

3. Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Model		Coefficients ^a			T	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.088	.036		2.465	.015
	Sqrt_X1	1.491E-7	.000	.153	.663	.508
	Sin_LnX2	-.004	.005	-.120	-.822	.412
	Sin_LnX3	.004	.002	.291	1.814	.072
	Sqrt_X4	-1.444E-7	.000	-.108	-.542	.589
	Ln_X5	-.004	.002	-.252	-1.878	.062
	Ln_X6	.000	.001	.032	.432	.666

a. Dependent Variable: ABS_RES1

Source: SPSS Software Results

The heteroscedasticity test aims to test differences in residual variance between observations in the regression model. A good regression model has homoscedasticity, which is a constant residual variance. The Glejser test in SPSS is used with the following criteria: if the significance value in ABS_Res1 < 0.05, then heteroscedasticity occurs, or if the significance value in ABS_Res1 > 0.05, then heteroscedasticity does not occur. In the table above, variables x1, x2, x3, x4, x5, and x6 have a significance value > 0.05. From this test, it can be assumed that there are no symptoms of heteroscedasticity or the fulfillment of heteroscedasticity assumptions.

B. Hypothesis Test

1. Analysis Of The Coefficient Of Determination

Table 4. The Results Of The Coefficient Of Determination

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.987 ^a	.975	.974	.01097

a. Predictors: (Constant), Ln_X6, Sqrt_X1, Ln_X5, Sin_LnX2, Sin_LnX3, Sqrt_X4

b. Dependent Variable: Y

Source: SPSS Software Results

In the table above, the R Square value shows the number 0.975. This means that the independent variables in the model can explain 97.5% of variations in the dependent variable (Y). In other words, this model has an excellent ability to explain the variability of the dependent variable.

2. Significance of Simultaneous Effects (F-Test)

Table 5. Test Results F

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.727	6	.121	1007.342	.000 ^b
	Residual	.019	158	.000		
	Total	.746	164			

a. Dependent Variable: Y

b. Predictors: (Constant), Ln_X6, Sqrt_X1, Ln_X5, Sin_LnX2, Sin_LnX3, Sqrt_X4

Source: SPSS Software Results

The F-test was conducted to determine a significant relationship between the dependent and independent variables in the regression model. The above has an F statistical value of 1007,342 and a significance value of 0.000, which is smaller than the significance level of 0.05. From this result, it can be determined that independent variables, including local own-source revenue, operating expenditure, revenue sharing fund, general allocation funds, special allocation funds, and regional heads' working period, simultaneously significantly affect the ratio of local government financial performance.

3. Significance Test of Partial Effect (T-Test)

Table 6. Test Results T

Model		Coefficients ^a			T	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.673	.059		11.345	.000
	Sqrt_X1	1.163E-5	.000	1.232	31.199	.000
	Sin_LnX2	.039	.008	.118	4.733	.000
	Sin_LnX3	.028	.004	.204	7.413	.000
	Sqrt_X4	-4.004E-6	.000	-.309	-9.071	.000
	Ln_X5	-.033	.003	-.224	-9.737	.000
	Ln_X6	.002	.001	.023	1.809	.072

a. Dependent Variable: Y

Source: SPSS Software Results

From the table above, the regression equation is obtained, namely:

$$Y = 0.673 + 0.00001163 \times x_1 + 0.039 \times x_2 + 0.028 \times x_3 - 0.000004004 \times x_4 - 0.033 \times \ln_x5 + 0.002 \times x_6$$

- 1) In the regression equation above, the constant value of $Y = 0.673$ implies that if all the independent variables (sqrt_x1 , sin_lnx2 , sin_lnx3 , sqrt_x4 , ln_x5 , ln_x6) are zero, then the value of the dependent variable (y) is 0.673. It is the fundamental value of Y when there is no contribution to the independent variable. **SQRT_X1 Coefficient** (Regional Original Revenue) amounting to 0.00001163. It means that each unit increase in SQRT_X1 will increase the value of Y by 0.00001163 units. This coefficient shows a very significant positive effect ($t = 31,199$, $p < 0.001$), which means that the increase in local own-source revenue significantly improves the performance of the dependent variable (Y).
- 2) **Sin_lnx2 coefficient** (operating expenditure) of 0.039 means that each increase of one unit in sin_lnx2 will increase the value of y by 0.039 units. This coefficient is also significant ($t = 4,733$, $p < 0.001$), which shows that the increase in operating expenditure significantly improves the performance of the dependent variable (Y).
- 3) The **Sin_LNX3 coefficient** (Revenue Sharing Fund) is 0.028, meaning that each increase of one unit in sin_lnx3 will increase the value of y by 0.028 units. This coefficient is significant ($t = 7,413$, $p < 0.001$), which shows that the increase in revenue-sharing funds significantly improves the performance of the dependent variable (Y).
- 4) **SQRT_X4 Coefficient** (General Allocation Fund) by -0.000004004 This means that each unit increase in SQRT_X4 will reduce the value of Y by 0.000004004 units. This coefficient is significant ($t = -9.071$, $p < 0.001$), which shows that the general allocation fund increase significantly reduces the performance of the dependent variable (Y).
- 5) **LN_X5 coefficient** (Special Allocation Fund) by -0.033 means that each unit increase in LN_X5 will reduce the value of Y by 0.033 units. This coefficient is significant ($t = -9.737$, $p < 0.001$), which shows that the increase in special allocation funds significantly decreases the performance of the dependent variable (Y).
- 6) The coefficient of **LN_X6** (working period) of 0.002 means that each increase in one unit in LN_X6 will increase the value of y by 0.002 units. However, this coefficient is insignificant ($t = 1,809$, $p = 0.072$), which shows that the increase in the working period of regional heads does not significantly affect the performance of the dependent variable (Y) at a significance level of 5%.
- 7) The t value is 31,199, and the significance value is 0,000. It shows that every increase in one unit in SQRT_X1 will increase Y by 0.00001163. It shows that SQRT_X1 has a powerful positive influence on Y . T value of 4,733 and a significance value of 0,000. It shows that every increase in one unit in sin_lnx2 will increase Y by 0.039. It shows that sin_lnx2 significantly influences Y . T , with a value of 7,413 and a significance value of 0,000. It shows that every increase in one unit in sin_LNX3 will increase Y by 0.028. Shows that Sin_LNX3 has a significant positive influence on Y .
- 8) The t value is -9,071, and the significance value is 0,000. It shows that every increase in one unit in SQRT_X4 will reduce Y by 0.000004004. This coefficient is significant at 1%, indicating that SQRT_X4 has a significant negative effect on Y . T value of -9,737 and a significance value of 0,000. It shows that each increase in one unit in LN_X5 will reduce Y by 0.033. Shows that LN_X5 has a significant negative effect on Y . The T value is 1,809, and the significance value is 0.072. It shows that every increase in one

unit in LN_X6 will increase Y by 0.002. However, this coefficient is not significant at the 5% level because the significance value is greater than 0.05, indicating that the LN_X6 has no significant effect on Y at the level of significance.

4. Moderation Testing

Table 7. T-Test Results – Moderation

Model	Coefficients ^a				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.634	.134		4.716	.000
Sqrt_X1	1.116E-5	.000	1.182	22.151	.000
Sin_LnX2	.467	.152	1.409	3.063	.003
Sin_LnX3	.339	.086	2.439	3.949	.000
Sqrt_X4	-3.700E-6	.000	-.285	-8.704	.000
Ln_X5	-.030	.003	-.207	-8.679	.000
Ln_X6	-.086	.044	-.972	-1.958	.052
Ln_Z	9.293E-5	.007	.001	.013	.990
SqrtX1*LnZ	.586	.077	-5.347	-4.230	.000
SinLnX2*LnZ	-.023	.008	-1.327	-2.882	.005
SinLnX3*LnZ	-.016	.004	-2.216	-3.585	.000
SqrtX4*LnZ	-.930	.005	.839	.699	.485
LnX5*LnZ	.578	.188	1.608	1.310	.192
LnX6*LnZ	.005	.002	1.017	2.029	.044

a. Dependent Variable: Y

Source: SPSS Software Results

The moderation variable represented by X1Z, X3Z, X4Z, X5Z, and X6Z affected variable Y significantly, with a significance level of less than 0.05. The results of moderation regression analysis show that X1Z, X3Z, X4Z, and X5Z have a significant effect on Y, each with a significance value of 0,000, 0,000, 0,000, and 0.014. It shows that X1Z, X3Z, X4Z, and X5Z effectively moderate the relationship between local own-source revenue, revenue-sharing funds, general allocation funds, and special funds with financial performance. However, the X2Z variable has no significant effect on Y, with a significance value of 0.470, which shows that X2Z cannot moderate the relationship between operating expenditure and financial performance. These results indicate that certain factors, such as capital expenditure, can effectively affect the relationship between these variables and financial performance in the context of this research.

DISCUSSION

Effect of Local Own-Source Revenue on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that local own-source revenue had a significant effect on financial performance. The results of this study are per the hypothesis, so the initial hypothesis is accepted. Regional original income is the income earned from the source of the potential that has the potential in an area regulated by the regulations and laws that have been formed. Fiscal decentralization is aimed at developing local government autonomy, which plays an essential role in the influence of local own-source revenue on financial performance.

By utilizing local economic potential, regional original income can improve local government finances while promoting the community's welfare and facilitating regional development. The results of this study are the same as those conducted by Verawaty et al. (2020). The results were also supported by research from Badjra et al. (2017), which found that increased regional original revenue correlates positively with improving financial performance in the city and district governments, showing their fiscal capabilities.

The Effect of Operating Expenditure on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that operating spending had a significant effect on financial performance. The results of this study are per the hypothesis, so the initial hypothesis is accepted. Operational expenditure can positively affect the local government's financial performance. Public services will be faster when the local government allocates more funds to operating spending. According to research from Patriati (2010), operational expenditure can affect the financial performance of local governments in Central Java.

By ensuring operating spending is directed at areas that provide the highest benefits, local governments can increase economic growth and develop regions that can indirectly improve the financial performance

of local governments. Higher operating expenditure is often associated with strong financial performance to reflect the capabilities of local governments in fulfilling their obligations, achieving development goals, and maintaining fiscal continuity.

The Effect of Revenue-Sharing Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that the revenue-sharing funds had a significant effect on financial performance. The results of this study are per the hypothesis, so the initial hypothesis is accepted. The revenue-sharing funds have a significant negative effect on financial performance. The revenue-sharing funds originating from the distribution of results, which are the benefits obtained given to local governments from the central government, can reduce local government incentives to optimize the source of local government revenue. As a result, local governments can be more dependent on the central government's transfer than trying to increase income from the regions. This dependency can make financial management less efficient and hamper regional economic independence. Following the agency theory, the relationship between the central government (principal) and the Regional Government (Agent) can result in the potential for conflict of interest. Local governments that act as agents do not always act in the best interests of the central government. When the local government receives revenue-sharing funds, they will be less motivated to increase income from the region, depending on the transfer from the central government. This conflict of interest can result in less optimal financial performance.

Effect of General Allocation Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that the general allocation fund had a significant effect on financial performance. The results

of this study follow the hypothesis so that the initial hypothesis is accepted. The general allocation fund has a significant negative effect on financial performance. In line with research from Parapat et al. (2021), General Allocation Funds significantly negatively affect financial independence in Pematang Siantar. The general allocation fund can make the local government feel satisfied if they do not feel pressure to implement innovative financial management or cost-saving efforts. This satisfaction can impact public funds' lack of accountability and transparency because local governments may depend on regular transfers from the central government to ignore the need for fiscal discipline and strategic planning.

Following agency theory, the relationship between the central government (principal) and the Regional Government (Agent) can be hampered by information asymmetry. Local governments may have more detailed information on financial needs and expenditures than the central government. This asymmetry can cause moral hazard when local governments do not use general allocation funds efficiently because the central government cannot fully monitor or know their financial management. This practice can result in, for example, the location of data sources, reduced financial performance, and weakening incentives for local governments to increase financial autonomy.

Effect of Special Allocation Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that the special allocation fund had a significant effect on financial performance. The results of this study follow the hypothesis so that the initial hypothesis is accepted. The general allocation fund has a significant positive influence on financial performance. Regional Government There are responsible parties who execute the work program planned to receive special allocation funds so that their accountability is ascertained. Special allocation funds can be used for

long-term programs such as road construction, bridges, schools, or hospitals to improve community living standards and provide access to public services. In line with research from Parapat et al. (2021), Effective Special Allocation Funds Allocation in bridging fiscal gaps not covered by general allocation and revenue-sharing funds. By utilizing special allocation funds to fund physical and non-physical productive needs, special allocation funds act as catalysts for optimizing local own-source revenue to increase the financial independence of local governments.

From the agency theory perspective, the use of special allocation funds illustrates the level of accountability and responsibilities of the local government. This accountability can increase the development of financial management practices at the regional level. By focusing on long-term projects, general allocation funds can contribute to sustainable economic growth and improve public living standards to reflect positively on the financial performance of local governments. Funding of structured and targeted fractures to help local governments achieve better financial results while meeting the priority of central government development.

The Effect of the Working Period of Regional Heads

The initial hypothesis that had been delivered in the previous chapter said that the term of service of regional heads had a significant effect on financial performance. The results of this study were not per the hypothesis, so the initial hypothesis was rejected. The working period of the regional head had no significant effect on financial performance. This result can occur because financial performance is influenced by other factors, such as policy decisions and external economic conditions, which are not merely dependent on the length of the term of office of a leader.

Then, the continuity of leadership does not guarantee better financial performance because it often depends on the existing

leaders' competence, experience, and administrative system. Changing leadership can also bring helpful new perspectives and policies. Therefore, the effectiveness of financial management and performance is more closely related to the quality of governance and institutional power compared to the length of the term of office of a leader.

Effect of Capital Expenditures in Moderated Local Own-Source Revenue on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate local own-source revenue on financial performance. The results of this study are per the hypothesis, so the initial hypothesis is accepted: capital expenditure can positively moderate local original revenue and financial performance. Local own-source revenue is the primary source of funding for the local government. So, district and city governments need to increase local own-source revenue. Capital expenditure investment can strengthen regional income's positive impact on financial performance by creating an environment that supports economic growth.

Well-planned local projects can improve the business, tourism, and overall quality of life of the population. In other words, capital expenditure functions as an important tool for infrastructure development and strengthens the relationship between regional income and local government financial performance, thereby ensuring sustainability and economic welfare in the long run.

Effects of Capital Expenditures in Moderated Operating Expenditures on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate operating expenditure on financial performance. The results of this study follow the initial hypothesis that capital expenditure

can weaken the effect of operating expenditure on financial performance. When local governments invest in infrastructure, local governments can increase the efficiency and effectiveness of capital expenditure. Capital investment can support the routine function of public services, reduce operational costs, and increase service speed. Strategic allocation on capital expenditure ensures that operating expenditure can be used as efficiently as possible, improving local government operations' financial performance and effectiveness.

Regarding theoretical agents, investment in high-quality infrastructure can reduce the need for frequent improvements and maintenance at all times, resulting in long-term cost savings. Increased operating expenditure can increase public satisfaction with government performance and increase local government income through better tax and asset management. Increased community satisfaction and employee morale, driven by efficient capital expenditure, further strengthen the positive impact of operational expenditure on local government financial performance.

Effect of Capital Expenditures in Moderated Revenue-Sharing Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate revenue-sharing funds on financial performance. The results of this study are per the hypothesis so that the initial hypothesis is received: capital expenditure can weaken the effect of revenue-sharing funds on financial performance. Capital expenditure aims to improve long-term infrastructure and assets. This effect is limited when the local government is very dependent on revenue-sharing funds from the central government. Weakening this influence can occur if there are differences in the local government's objectives and the revenue-sharing fund's purpose. Suppose the funds are transferred to projects that are not a priority, or there is

inefficiency in implementing the project. In that case, financial performance can be less optimal despite revenue-sharing funds. Moreover, dependence on revenue-sharing funds can cause a sense of satisfaction in financial management to cover the positive impact of capital expenditure. As a result, the local government's financial performance may not increase significantly despite significant capital expenditure.

Effect of Capital Expenditures in Moderated General Allocation Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate the general allocation of funds on financial performance. The results of this study did not follow the hypothesis, so the initial hypothesis was rejected: capital expenditure could not moderate the general allocation fund on financial performance. Many interrelated factors, including budget management, expenditure policies, and efficiency of resource allocation, influence government financial performance. Capital expenditure may only be one aspect of a broader expenditure strategy, and its impact on financial performance can be reduced or indirectly measured in a more complex analysis. The General Allocation Fund is often allocated to support more general and sustainable operational needs, such as employee salaries and routine operational costs. The use of this may have a stabilization effect on government finances, which are not directly influenced by additional capital expenditure.

Effect of Capital Expenditures in Moderated Special Allocation Funds on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate the special allocation fund on financial performance. The results of this study follow the hypothesis that the initial hypothesis is rejected: capital expenditure cannot

moderate the special allocation fund on financial performance. Special allocation funds are allocated for specific projects or activities that the central or regional governments have generally determined based on specific priorities.

Special allocation funds have been used for specific purposes, such as developing particular infrastructure or improving public services in certain areas. Expenditures related to special allocation funds often have strict supervision and precise use requirements. It can reduce the flexibility in allocating additional capital expenditure or other interventions to strengthen the impact of special allocation funds on financial performance.

Effect of Capital Expenditures in Moderated the Working Period of the Regional Head on Financial Performance

The initial hypothesis that had been delivered in the previous chapter said that capital expenditure could moderate the special allocation fund on financial performance. The results of this study are per the hypothesis so that the initial hypothesis is received: capital expenditure can strengthen the effect of special allocation funds on financial performance. When the regional head invests in projects such as infrastructure and long-term assets, regional heads can improve public sustainability and economic productivity, reflecting positive financial performance.

Regional heads' use of capital expenditure shows the commitment to developing sustainability and financial stability. Investment in infrastructure that provides good yields can improve public services and confidence in local governments so that they can increase income and financial performance.

CONCLUSION

Based on the results of research and discussion in the previous chapter, several conclusions can be drawn as follows:

1. Local own-source revenue has a significant positive effect on financial

performance.

2. Operating expenditure has a significant positive effect on financial performance.
3. The revenue-sharing fund has a significant positive effect on financial performance.
4. The General Allocation Fund has no significant effect on financial performance.
5. Special Allocation Fund has a significant positive effect on financial performance.
6. The working period of the regional head has no significant effect on financial performance.
7. Capital expenditure can moderate the effect of local own-source revenue on financial performance.
8. Capital expenditure cannot moderate the effect of operating expenditure on financial performance.
9. Capital expenditure can moderate the effect of revenue-sharing funds on financial performance.
10. Capital expenditure cannot moderate the effect of general allocation funds on financial performance.
11. Capital expenditure can moderate the effect of special allocation funds on financial performance.
12. Capital expenditure cannot moderate the effect of the working period of regional heads on financial performance.

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