International Journal of Economics, Business and Management Research

Vol. 10, No.04; 2026

ISSN: 2456-7760

Effect on Locally Generated Revenue, Capital Expenditure, and Balancing Funds on Local Government Financial Performance

Sigit Handoyo*, Reizka Putri Shefina
Accounting Department
Universitas Islam Indonesia
sigit.handoyo@uii.ac.id

doi.org/10.51505/IJEBMR.2026.10404 URL: https://doi.org/10.51505/IJEBMR.2026.10404

Received: Mar 09, 2026 Accepted: Mar 13, 2026 Online Published: Apr 08, 2026

Abstract
This study aims to examine and analyze the influence of locally generated revenue or PAD, capital expenditure, and balancing funds on the financial performance of local governments in Central Java Province for the 2018-2021 period. The research method used is multiple linear regression analysis. The results of the data analysis indicate that local revenue has a significant positive effect on local government financial performance. This indicates that local taxes and levies have a significant contribution to local revenue sources. Capital expenditure has no effect on local government financial performance. This indicates that capital expenditure spending is still not on target and therefore does not affect financial performance. Balancing funds have a significant negative effect on local government financial performance. This indicates that the government is still dependent on the central government in financing its regional activities.

Keywords: PAD, capital expenditure, balancing funds, financial performance

Introduction

A regional government is a government agency or entity responsible for managing administrative affairs, public services, and policy-making at the regional level, such as provinces, districts, and cities, under the central or national government. Regional government can also be defined as the administration of affairs by regional governments and the Regional People's Representative Council (DPRD) according to the principles of decentralization and deconcentration, the term meaning process or activity (Marsono, 2005). This regional government plays an important role in welfare and development at the regional level. In running the government, the central government fully delegates to regional governments through regional autonomy.

Regional autonomy grants independence to local governments in decision-making, regulation, policy management, and regional development. Regional governments are enshrined in Law No. 23 of 2014 concerning Regional Government, the law governing regional autonomy in Indonesia. This law contains provisions regarding the procedures for implementing regional

Vol. 10, No.04; 2026

ISSN: 2456-7760

autonomy, the division of authority between the central government and regional governments, and procedures for managing regional government affairs. With the implementation of decentralization, regional governments are expected to optimize Locally Generated Revenue (PAD) as a source of regional government revenue. Optimizing PAD can be done by effectively managing regional assets and developing resources from various sectors such as the economic sector and tourism. The more optimal the performance of regional governments in their implementation, the more successful the development process will be. This can demonstrate regional financial independence from the central government, thereby increasing the potential for improving financial performance.

Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, capital expenditures that will increase fixed assets or can add inventory which will provide benefits beyond 1 (one) accounting period, also include expenditures to finance maintenance that is intended to maintain and increase the useful life, as well as to increase the quality capacity of the asset. Capital expenditures have a significant impact on the financial performance of local governments. This is because capital expenditures involve long-term investments in infrastructure, development projects, and other public assets. The existence of capital investment can affect economic growth, the quality of public services, and the general condition of the local area.

Law Number 33 of 2004 defines the Balancing Fund as funds sourced from the State Budget (APBN) and allocated to (autonomous) regions to finance regional needs in the context of implementing decentralization. Central government allocations significantly impact regional financial performance because they are used to improve public service infrastructure. However, this can lead to a decline in the percentage when communities become dependent on the government's ability to meet their needs.

Several researchers have conducted research analyzing the influence of Regional Original Revenue, Capital Expenditure, and Balancing Funds on Financial Performance, such as that conducted by (Antari & Sedana, 2018), which showed that Regional Original Revenue positively impacts financial performance. Furthermore, research conducted by (Sari & Mustanda, 2019) found that Regional Original Revenue and capital expenditure positively impact financial performance. Another study conducted by (Ardelia et al., 2022) showed that balancing funds negatively impact financial performance. Furthermore, previous research (Bilqis & Priyono, 2023) found that Regional Original Revenue positively impacts local government financial performance, while capital expenditure negatively impacts it.

In this study, the researcher will use research samples from the Regencies/Cities of Central Java Province for the period 2018 to 2021. The researcher conducted this study with the aim of further determining how influential local revenue, capital expenditure, and balancing funds are on the financial performance of local governments. This study refers to previous studies conducted by Antari & Sedana (2018); Sari & Mustanda (2019); (Fauziyah & Ekaningtias, 2022) by combining several independent variables. The dependent variable used is financial

Vol. 10, No.04; 2026

ISSN: 2456-7760

performance while the independent variables include local revenue, capital expenditure, and balancing funds. The researcher uses the independence ratio as a measure of regional financial performance.

Theoretical Basis

Agency Theory

Siagian (2011) states that agency theory refers to the relationship or agreement between an agent and an owner. Agency theory is a relationship based on an agreement between two or more parties, the first party is called the principal and the second party is called the agent (Jensen & Meckling, 1976). The party responsible for giving orders in monitoring, evaluating, and providing input on the agent's work is called the principal . Meanwhile, the party who accepts the principal's responsibilities and carries them out according to what is given to them is the agent. In the public sector, the principal is represented by the people, which in this case is represented by the legislature (DPRD), while the agent is represented by the executive (government).

Regional Government Financial Report (RGFR or LKPD)

Comprehensive regional financial reports can be used as a tool to improve public accountability (Superdi, 2017). The characteristics of government financial reports must be relevant, transparent, trustworthy, accountable, and understandable. Regional government financial reports can consist of several main components, such as the Budget Realization Report, the Report on Changes in the Excess Budget Balance, the Balance Sheet, the Cash Flow Report, the Operational Report, the Statement of Changes in Equity, and Notes to the Financial Statements. In most cases, regional government financial reports are a collection of documents that show the results of the performance and financial activities of the regional government over a certain period.

Regional Original Income (ROI or PAD)

Revenue received by a region from statutory levies and potential wealth sources can be referred to as regional original income (Halim, 2007). Regional original income can also come from the business sector, which will then use the business sector's income to finance regional service and development needs. All income derived from regional original economic sources is called PAD. There are several sources of regional original income, namely regional taxes, regional levies, results from the management of separate regional resources and wealth, and other legitimate regional original income.

Capital Expenditure (CE or BM)

Capital expenditure is a regional government expenditure that impacts regional economic growth and should be reinvested by increasing capital expenditure allocations to enhance public trust and community productivity. The greater the capital expenditure allocation, the higher the regional financial performance will be, providing services to the public that directly

Vol. 10, No.04; 2026

ISSN: 2456-7760

or indirectly impact the local community. According to Astiti & Mimba (2016), the distribution of capital expenditure funds will significantly assist regions in obtaining financial resources from regional potential, which can increase regional income and improve regional government performance.

Balancing Fund (BF or DP)

According to Andaresta & Aswar (2021), balancing funds refer to regional financing that improves community welfare. Funds are provided to local government agencies in each region by the central government. These funds are used for the economy and public works in each region. The amount of funds distributed is based on each region's revenue potential. Aspects of local government financial performance affected by balancing funds are as follows: First, balancing funds can provide financial stability to local governments. Second, balancing funds can improve the provision of public services such as education, health, and security. Third, balancing funds can assist local governments in meeting their financial obligations, such as paying employee salaries.

Regional Government Financial Performance

The method for assessing local government financial performance is financial performance. The flow of local government finances is determined by financial performance analysis. Local government financial reports are used to determine the flow of local government finances (Darwanis & Saputra, 2014). Measuring local government financial performance is crucial because it has a significant impact on the public sector. In regional financial management, local government financial performance can be assessed using the financial ratio to the regional budget (APBD). In this study, financial performance was measured using the independence ratio to determine the extent of the local government's ability to self-finance its activities.

Independence Ratio

$$= \frac{PAD}{Central\ Government\ Transfer + Provincial\ Transfer + Loan}\ x100\%$$

Hypothesis Study

Influence Income Original Area To Performance Finance Government Area

Original Income Area (PAD) is source main financing and expenditure area. Besides that, money which accepted by every area frtom various sources, such as regional taxes, regional levies, and result of resource management, is all included as part of the original regional income. Income from the original area can also be used financed all programs government initiatives related to the implementation of regional autonomy, in accordance with the potential of each region, and to improve welfare Community. This is done to ensure the decentralization process runs smoothly. with Good. Income This show How And as far as where something area can finance all over activity government Which There is, including service publicAnd Development infrastructure. By Because That, If income original areaincreases, then financial performance will also increase.

Vol. 10, No.04; 2026

ISSN: 2456-7760

This is in line with research conducted by Antari & Sedana (2018) that the research results local revenue increases so that it can minimize dependence regions regarding funding assistance sourced from the central government. In addition, Sari & Mustanda (2019) state that improvement reception income original area Which tall every the year show height source financeregion. If financial resources can be utilized optimally, it can increase performance local government finances. Ardelia et al., (2022); Bilqis & Priyono (2023) proved that there is a significant positive influence between the Regional Original Income and the level Performance Regional Government Finance.

H_1: Income original areas have a positive influence on performance finance government area.

The Impact of Capital Expenditure on Government Financial Performance Area

Capital expenditure is regional government expenditure that has an impact on regional economic growth. Regional governments should be able to carry out rotation shopping with increase allocation shopping capital For development, as well as increase trust public And productivity public. Besides That, government area still must supervise And adjust regional spending so that it does not exceed income. The greater it is expenditure obtained from capital expenditure for development, which is value the benefits impact on improvement income area, so finance area will more Good. If the more tall shopping capital Which done government, the higher the financial performance of the regional government (Sari & Mustanda, 2019). The more the allocation of capital expenditure increases, the more high regional financial performance by providing services to the community the benefits of which are felt directly or indirectly by community (Andirfa et al., 2016). Based on research by Sari & Mustanda (2019) and Andirfa et al., (2016) shows that capital expenditure has a positive effect on financial performance government area.

H_2: Capital expenditure has a positive impact on government financial performance area.

Influence Funds Balance To Performance Finance Government Area

According to Sutrisno & Sugiyanto (2020) that funds balance required For fulfil need area moment apply government decentralized. This is due to the fact that decentralization requires balance between central and regional governments. Balancing funds also allow differences in vertical and horizontal financial resources between regions and the center. In relation to agency theory, local governments must be responsible responsible for this authority by carrying out financial management healthy and improve the provision of equitable and optimal public services. Government area functioning as agent, And government center functioning asprincipal in situation This. Study Andirfa et al., (2016); Fauziyah & Ekaningtias (2022); Ardelia et al., (2022) showed that balancing funds have an effect negative And significant to financial performance local government.

H_3: Balancing funds have a negative impact on government financial performance area

Vol. 10, No.04; 2026

ISSN: 2456-7760

Research Methods

This study uses a quantitative approach to determine how local revenue, capital expenditure, and balancing funds affect the financial performance of local governments in Central Java Province. The population used in this study is the regencies/cities of Central Java Province, where secondary data is used in the form of LKPD (Regional Government Accountability Reports) of Central Java Province for the 2018-2021 period. The data source was obtained from the official website of the Central Java Province PPID.

The sample used in this study was *Saturation Sampling* . The data analysis method used multiple linear regression with independent variables of local revenue, capital expenditure, balancing funds, and dependent variable of financial performance. In addition, there are descriptive statistical tests to provide an overview of the frequency distribution of variables in the study, while the classical assumption test to determine whether there are classical assumption problems in the data used. For hypothesis testing, this study uses the t-test and F-test to determine whether the independent variables have a simultaneous effect on the dependent variable.

Results and Discussion

Descriptive Statistical Test Analysis

Table 1 Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Standard Deviation
KKPD	140	2.5275	4,6330	3,1497	0.3791
PAD	140	25,9119	28,5006	26,6449	0.4070
BM	140	25,3491	27,8368	26,4148	0.4641
DP	140	26,9810	28,4368	27,8699	0.3289
Valid N (listwise)	140				

Source: SPSS Data Output, 2024

Table 1 shows the results of the descriptive analysis as follows: (1) The PAD variable obtained a minimum value of 25.9119 owned by Pekalongan City in 2018, a maximum value of 28.5006 owned by Semarang City in 2021, *a mean* of 26.6449, and a standard deviation value of 0.4070. (2) The BM variable obtained a minimum value of 25.3491 owned by Temanggung Regency in 2020, a maximum value of 27.8368 owned by Semarang City in 2018, *a mean* of 26.4148, and a standard deviation value of 0.4641. (3) The DP variable obtained a minimum value of 26.9810 owned by Salatiga City in 2020, a maximum value of 28.4368 owned by Brebes Regency in 2021, *a mean* of 27.8699, and a standard deviation value of 0.3289. (4) The KKPD variable obtained a minimum value of 2.5275 owned by Wonogiri Regency in 2021, a maximum value of 4.6330 owned by Semarang City in 2021, *a mean* of 3.1497, and a standard deviation value of 0.3791.

Vol. 10, No.04; 2026

ISSN: 2456-7760

Classical Assumption Test

Normality Test

The normality test is used to determine whether the data is normally distributed or not. The testing method in this study uses the *Kolmogorov Smirnov method* . Data is normally distributed if the probability value is > *a* (0.05) and if the probability value is < *a* (0.05) then the residual value is not normally distributed. The test results in this study show *an asymp. sig* of 0.139. Therefore, it can be concluded that the data is normally distributed and meets the requirements for a normality test because *asymp.sig* 0.139 > α (0.05). The results of the normality test can be seen in Table 2 as follows **:**

Table 2 Normality Test Results

One-Sample Kolmogorov_Smirnov Test

		Standardized Residual
N		140
Normal Parameters[a,b]	Mean	,0000000
	Standard Deviation	,98914977
Most Extreme Differences	Absolute	,098
	Positive	,098
	Negative	-,079
Kolmogorov-Smirnov Z		1,154
Asymp. Sig. (2-tailed)		,139

Source: SPSS Data Output, 2024

Multicollinearity Test

The multicollinearity test aims to determine the correlation between independent variables in a regression model. The basis for decision-making in this test is that if *the Variance Inflation Factor (VIF)* meets the criteria of *a VIF value* <10 or a *tolerance value >0.10,* then multicollinearity does not occur. The results of the multicollinearity test can be seen in Table 3 below:

Table 3 Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	5,365	,665			
	LN_PAD (X1)	,947	,022	1,017	,691	1,448
	LN_BM (X2)	-,001	,021	-,001	,569	1,757
	LN_DP (X3)	-,984	,029	-,854	,608	1,644

a. Dependent Variable: LN_KK (Y)

Source: SPSS Data Output, 2024

The test results in Table 3 show that each independent variable has a VIF value <10 and a *tolerance value* >0.10. Based on the VIF and *tolerance values* obtained, it can be concluded that this research regression model does not exhibit symptoms of multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether or not there is a deviation from the classical assumption in the form of unequal residual variances for all observations in the regression model. The criteria for this test are that if the significance value is >0.05, it can be concluded that the data tested does not exhibit symptoms of heteroscedasticity. The results of the heteroscedasticity test can be seen in Table 4 as follows:

Table 4 Heteroscedasticity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,042	,352		-,119	,906
	LN_PAD (X1)	-,011	,012	-,092	-,909	,365
	LN_BM (X2)	-,015	,011	-,148	-1,327	,187
	LN_DP (X3)	,028	,015	,200	1,849	,067

a. Dependent Variable: Abresid

Source: Output Data SPSS, 2024

Vol. 10, No.04; 2026

ISSN: 2456-7760

Based on the results of table 4, it shows that all variables have a significance value > 0.05, so it can be concluded that the data in this study are free from heteroscedasticity symptoms.

Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between the nuisance error in period t and the error in period t-1 (previous). In this test, the researcher used the *Lagrange Multiplier* (*LM Test*) method. The testing criteria for this method are that if the calculated *Chi-square* < *Chi-square* table, it can be concluded that there is no autocorrelation symptom. The results of the autocorrelation test can be seen in Table 5 as follows:

Table 5 Autocorrelation Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,974[a]	,948	,947	,08745

a. Predictors: (Constant), LN_DP (X3), LN_PAD (X1), LN_BM (X2)

Source: SPSS Data Output, 2024

Based on table 5, the *Chi square value* can be calculated by multiplying the *R Square result* by the number of data (N = 140). The table shows the *R Square value of 0.948, so the calculated Chi Square* value is 132.72. In the *Chi Square table, the Chi Square table* value is 167.514 (df = N-1, α = 0.05). From the test results, it can be concluded that there is no autocorrelation symptom because the calculated *Chi Square* < *Chi Square* table.

Multiple Linear Regression Analysis

Table 6 Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,365	,665		8,069	,000
	LN_PAD (X1)	,947	,022	1,017	43,189	,000
	LN_BM (X2)	-,001	,021	-,001	-,052	,959
	LN_DP (X3)	-,984	,029	-,854	-34,028	,000

a. Dependent Variable: LN_KK (Y)

Source: SPSS Data Output, 2024

Vol. 10, No.04; 2026

ISSN: 2456-7760

The calculation results from multiple linear regression analysis can be formulated as follows:

Y = 5.365 + 0.947X1 – 0.001X2 – 0.984X3
Information:
Y = Regional Government Financial Performance
X1 = Regional Original Income
X2 = Capital Expenditure
X3 = Balancing Fund

The multiple linear regression equation above explains that the constant value of 5.365 indicates that if PAD, BM, and balancing funds are assumed to remain unchanged, the value of the regional government's financial performance is 5.365. The coefficient value of X1 is 0.947, meaning that Regional Original Income or X1 has a positive direction of relationship with the financial performance of the regional government. When X1 increases by 1, the financial performance of the regional government will increase by 0.947 assuming variables X2 and X3 are constant. The coefficient value of X2 is -0.001, meaning that Capital Expenditure or X2 has a negative direction on the financial performance of the regional government. This relationship is determined by the assumption that X1 and X3 remain constant. For every 1 spent, it will reduce the performance by 0.001 of the financial performance of the regional government. The coefficient value of X3 is -0.984, meaning that the Balancing Fund or X3 has a negative direction on financial performance. This relationship is determined by the assumption that X1 and X2 remain constant. For every one increase, the performance will decrease by 0.984 of the regional government's financial performance.

Hypothesis Testing

t-test (Partial)

Individual or partial test analysis is used to determine whether the independent variable partially has a significant influence on the dependent variable. Decision making in this test is based on the level of significance. If the significance value of the independent variable is lower than the significance level (α), which is 0.05, then the proposed hypothesis can be declared significant. Conversely, if the significance value is higher than the significance level, then the proposed hypothesis is declared insignificant. The results of the t-statistic test (partial) can be seen in Table 7 as follows:

Vol. 10, No.04; 2026

ISSN: 2456-7760

Table 7 t-Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,365	,665		8,069	,000
	LN_PAD (X1)	,947	,022	1,017	43,189	,000
	LN_BM (X2)	-,001	,021	-,001	-,052	,959
	LN_DP (X3)	-,984	,029	-,854	-34,028	,000

a. Dependent Variable: LN_KK (Y)

Source: SPSS Data Output, 2024

From the t-test results in Table 7, it can be seen that the calculated t-value of the PAD variable is 43.189 with a significance value of 0.00. The results obtained are a significance value lower than the significance level of 0.00 < 0.05 and it can be concluded that the regional original income variable has a significant positive influence on the financial performance of local governments, so the first hypothesis **is accepted.**

The capital expenditure variable has a t-value of -0.052 and a significance value of 0.959. The results obtained are a significance value greater than the significance level, namely 0.959 > 0.05, and it can be concluded that the capital expenditure variable has no influence on the financial performance of local governments, so the second hypothesis **is rejected.**

The balancing fund variable has a t-value of -34.028 and a significance value of 0.00. The results obtained are a significance value lower than the significance level of 0.00 < 0.05 and it can be concluded that the balancing fund variable has a significant negative influence on the financial performance of local governments, so the third hypothesis **is accepted.**

F Test (Simultaneous)

Simultaneous testing allows researchers to determine whether the independent variables simultaneously influence all dependent variables. This experiment was conducted at a significance level of 0.05. The results of the f-statistic test can be seen in Table 8 below:

Table 8 F Test Results

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18,939	3	6,313	825,494	,000[a]
	Residual	1,040	136	,008		
	Total	19,979	139			

a. Predictors: (Constant), LN_DP (X3), LN_PAD (X1), LN_BM (X2)

b. Dependent Variable: LN_KK (Y)

Based on the results of the F-test in Table 8, the calculated F-value for this study is 825.494, with a significance value of 0.000, lower than the 0.05 level. This indicates that regional government financial performance is simultaneously influenced by regional original revenue, capital expenditure, and balancing funds.

Discussion

Influence Income Original Area To Performance Finance Government Area

Based on results exercise data obtained that mark coefficient B is 0.947 which It means income original area or X1 has a positive direction towards variables Y and if there is an increase in local original income of 1 unit then it will increase financial performance by 0.947 assuming other variables are constant. Results exercise data with regression show mark sig. as big as 0.00 < 0.05. From results the mark significant more low from on level significance, so can concluded that there is influence positive between income original area (*H* 1) on the financial performance of local government (Y). The results of this study are in line with study which done by Antari & Sedana (2018); Sari & Mustanda(2019); Pradana & Handayani (2023) Which show that income original area influential positive towards government financial performance area.

In line with the agency theory used in this study, taxes and retribution area is form contribution public to government area as source income original area. Government, as agent, responsible for managing funds from the community. The community, as principal, own authority for supervise management finance local government. Local government financial resources come from the community can be optimized to improve financial performance government area.

The Impact of Capital Expenditure on Financial Performance Government Area

Based on results exercise data obtained that mark coefficient B is 0.001, which means that capital expenditure or X2 has a negative direction on performance local government finances. For every 1 spent, it will reduce performance of 0.001 of the financial performance of the regional government, assuming variables X1 and X3 are constant. The results of data processing using regression show sig. value 0.959 > 0.05. From these results, the significance value is

Vol. 10, No.04; 2026

ISSN: 2456-7760

greater than level significance, so can concluded that No influence between shopping capital (*H* 2) on performance finance government area (Y).

The results of this study are in line with research conducted by Fauziyah, & Ekaningtias, (2022), Abdullah et al., (2022) and Bilqis & Priyono (2023) which states that capital expenditure does not affect financial performance local government. Factors that can influence capital expenditure have negative direction towards financial performance in local governments, namely during the pandemic Covid-19. This was because Indonesia experienced the Covid-19 outbreak in 2020 and 2021. During those two years, capital spending did not align with the established Draft State Budget (RAPBN). This means that funds are diverted to help meet the needs of the community, and the funds that used for capital expenditure budget should not be more than what has been allocated budgeted. Therefore, it can cause capital expenditure to have a negative impact on financial performance. This is inconsistent with the results of research conducted by Sari & Mustanda (2019) which shows that capital expenditure has a positive effect on the financial performance of local governments. If the capital expenditure is higher, done government so the more tall also performance finance government area.

The Impact of Balanced Funds on Government Financial Performance Area
Based on results exercise data obtained mark coefficient B is -0.984 which means that the balancing fund or X3 has a negative impact on financial performance. For every increase 1 will lower performance of 0.984 from performance local government finances, assuming variables X1 and X2 are constant. The results of data processing with regression show a sig. value of 0.00 < 0.05. From the results This can be interpreted as meaning that the significance value is lower than the level significance, so can concluded funds balance (*H*3) influential negative on performance government finances area (Y).

Results study This in line with study Which done by Indriani et al., (2023) which states that the balancing fund variable has a negative effect on the financial performance of local governments. This shows that when a lot of funds provided by the center, local governments show conditions poor financial performance and loss of independence because they do not can use these resources independently. Although the balancing funds can beneficial For provide service public with Good, will but matter This is often not the case. The amount of funds received by each region is low. And No increase performance finance in a way significant. Besides That, government regions as agents are highly dependent on transfer funds from the center. As a result, performance finance government area will decrease because funds transfer from center.

Conclusion

Based on the results of the multiple linear regression analysis and the hypotheses formulated in the previous chapter, the conclusion of this study is that Regional Original Income (PAD) has a positive and significant effect on the financial performance of local governments in Central Java Province. This indicates that an increase in Regional Original Income (PAD) will affect the financial performance of local governments in Central Java Province, and vice versa. Capital expenditures do not significantly affect the financial performance of local governments in

Vol. 10, No.04; 2026

ISSN: 2456-7760

Central Java Province. This indicates that an increase or decrease in capital expenditures will not affect changes in the financial performance of local governments in Central Java Province. Balancing funds have a negative and significant effect on the financial performance of local governments in Central Java Province. This indicates that an increase in balancing funds will affect the financial performance of local governments in Central Java Province, and vice versa.

Suggestion

The regional government in Central Java Province is expected to continue its efforts to encourage increased regional revenue (PAD) through effective and efficient management and expansion policies in the collection of regional levies and taxes. Furthermore, it is expected that the regional government will be able to implement appropriate policies related to capital expenditure. The regional government continues to increase the amount of capital expenditure and allocate capital expenditure appropriately according to the needs of community facilities and infrastructure in each district/city. To minimize the level of dependence on balancing funds, the regional government continues to strive to expand new revenue sources based on the potential of each district/city. It is hoped that further research can use financial performance measurements with ratio methods other than the independence ratio to accurately determine the level of regional government financial performance.

Implications

The implication of these findings is that local governments are expected to maintain and/or improve revenue management to improve their financial performance. Furthermore, this study also explains that local governments are expected to minimize their dependence on balancing funds to improve their financial performance. The greater the transfer of balancing funds received from the central government, the stronger the local government's dependence on the central government, resulting in a decline in their financial performance.

References

Abdullah, M, Al-maghrebi, M. S., &.sapiei, N. S., (2022). Power, Trust and Transparency as Determinant Factors of Tax Compliance: A Systematic Review. Journal of Tax Reform, 8(3), 312–335. Https://doi.org/10.15826/jtr.2022.8.3.124

Andaresta, H., & Aswar, K. (2021). The Influence of Regional Original Income, Balancing Funds, Regional Government Size, and Poverty Level on Regional Government Financial Performance. National Economic Research Conference, 2 (1), 1614-1624.

Andirfa, M., Basri, H., & Majid, Ma (2016, August). The Influence of Capital Expenditure, Balancing Funds, and Local Original Income on the Financial Performance of Regencies and Cities in Aceh Province. Journal of Master of Accounting, Postgraduate Program, Syiah Kuala University, 5 (3), 30-38.

Antari, Np, & Sedana, Ip (2018). The Effect of Local Original Income and Shopping. Unud E-journal of Management, 7 No. 2 , 1080-1110.

Ardelia, in, Wulandari, Hk, Ernitawati, Y., & Dumadi. (2022, October). The Influence of Locally-owned Revenue, Capital Expenditure, and Balancing Funds on the Financial

Vol. 10, No.04; 2026

ISSN: 2456-7760

Performance of Regional Governments (an Empirical Study of Regencies and Cities in the Former Pekalongan Residency). Journal of the Academy of Accounting (Jaa), 7 No. 1 , 60-81.

Astiti, Dy, & Mimba, Ns (2016). The Influence of Routine and Capital Expenditures on Regional Government Financial Performance. Unud E-journal of Management, 14 (3), 1924-1950.

Bilqis, Hk, & Priyono, N. (2023, February). The Effect of Locally-owned Revenue and Capital Expenditure on Financial Performance in Regencies/cities in Central Java Province for the 2015-2020 Period. Journal Economika, 2 No. 2 , 613-621.

Darwanis, & Saputra, R. (2014). The Effect of Capital Expenditure on Regional Original Income and Its Impact on Regional Government Financial Performance (Empirical Study on Regency/city Regional Governments in Aceh Province). Journal of Accounting and Business Dynamics, 1 (2).

Fauziyah, in, & Ekaningtias, D. (2022). The Effect of Expenditure Growth, Locally-owned Revenue, Legislative Size, and Balancing Funds on Regional Government Financial Performance. Journal of Public and Business Accounting, 3 No. 1 , 34-48. Doi: Https://doi.org/10.31328/jopba.v3i1.280

Ghozali, I. (2018). Multivariate Analysis Application With Ibm Spss 25 Program. Semarang: Diponegoro University Publishing Agency.

Halim, Abdul. (2007). Public Sector Accounting: Regional Financial Accounting. Jakarta: Salemba Empat.

Indriani, Ik. (2023). Financial Condition of Local Government Aftermath of Covid 19 Pandemic-archival Analysis. Jaa, 7(2). Doi: Https://doi.org/10.29303/jaa.v7i2.20

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Manageria Behavior, Agency Costs, and Ownership Structure. Journal of Financial Economics, 3, 305-360. Doi.org/10.1016/0304-405x(76)90026-x

Marsono. (2005). Regional Heads Elected by the People. Jakarta Eka Jaya.

Nugraha, Ac, & Trisnawati, R. (2019). The Influence of Local Government Size, Capital Expenditure, Intergovernmental Revenue, Locally Generated Revenue (Pad), and Legislative Size on Local Government Financial Performance (Empirical Study of Regencies and Cities in East Java Province 2015-2017). Jisamar, 8(4). Doi: Https://doi.org/10.52362/jisamar.v8i4.1629

Pradana, E. Y., & Handayani, N. (2023). The Effect of Local Revenue, General Allocation Funds, and Special Allocation Funds on the Financial Performance of Local Governments. Journal of Accounting and Finance (Jiaku), 2(2), 192–209. Https://doi.org/10.24034/jiaku.v2i2.5979

Saragih, Jp (2003). Fiscal Decentralization and Regional Finance in Autonomy.

Jakarta: Ghalia Indonesia.

Sari, Nd, & Mustanda, Ik (2019). The Influence of Regional Government Size, Locally-owned Revenue, and Capital Expenditure on Regional Government Financial Performance. E-journal of Management, 8 No. 8 , 4759-4787.

Siagian, Sp (2011). Human Resource Management. Jakarta: Pt Bumiaksara.

Vol. 10, No.04; 2026

ISSN: 2456-7760

Superdi. (2017). The Influence of Financial Statement Presentation, Accessibility, and Local Government Accounting Systems on Local Government Financial Management Accountability. Jom Fekon, 4(1), 2015-209.

Sutrisno, Wh, & Sugiyanto, E. (2020). The Influence of Regional Original Income, Balancing Funds, and Capital Expenditures on Regional Government Financial Performance (Empirical Study of Regencies and Cities in Central Java Province 2015-2017) (Doctoral Dissertation, Universitas Muhammadiyah Surakarta)