



**THE INFLUENCE OF INTERNALLY GENERATED REVENUE AND
CAPITAL EXPENDITURE ON REGIONAL FINANCIAL INDEPENDENCE
IN REGENCIES/CITIES OF NORTH SUMATRA PROVINCE IN 2019-2023**

Siska Triendent Manurung¹
Universitas Jenderal Achmad Yani, Cimahi, Indonesia
siskatriendent@gmail.com

R Budi Hendaris²
Universitas Jenderal Achmad Yani, Cimahi, Indonesia
Budi.hendaris@lecture.unjani.ac.id

Abstract

This study analyzes fiscal dynamics at the subnational level by examining the relationship between internally generated revenue and capital expenditure and their implications for regional financial independence across regencies and municipalities in North Sumatra Province during the 2019–2023 period. Using a quantitative research design, the study relies on secondary fiscal data obtained from official financial balance reports published by the Ministry of Finance of the Republic of Indonesia. The empirical analysis is conducted using multiple linear regression after ensuring that all classical assumption requirements are satisfied. The findings indicate that internally generated revenue has a positive and statistically significant effect on regional financial independence, suggesting that stronger local revenue capacity enhances fiscal autonomy and reduces reliance on intergovernmental transfers. In contrast, capital expenditure shows a negative and significant relationship with regional financial independence, reflecting the long-term nature of returns from public investment in fixed assets and infrastructure. When examined simultaneously, both variables significantly explain variations in fiscal independence among local governments. These results highlight the importance of strengthening local revenue mobilization while improving the strategic allocation of capital spending. Achieving sustainable regional financial independence under a decentralized governance framework requires a balanced approach that aligns revenue generation with prudent expenditure management to support long-term regional development.

Keywords: Internally Generated Revenue, Capital Expenditure, Regional Financial Independence



INTRODUCTION

Based on Law Number 23 of 2014 on Regional Government, regional autonomy refers to the delegation of authority to local governments to administer and regulate their own governmental affairs, including the management and utilization of regional economic potential to enhance public welfare. This policy emerged from the recognition that centralized governance is insufficient to effectively oversee and implement development across all regions, thereby necessitating greater decentralization and local decision-making authority. Therefore, some authority and power are delegated to regional governments so they can manage and meet their own regional needs more independently (Anazodo et al., 2016). This policy underscores the central government’s intention to support regional governments in administering their responsibilities independently, efficiently, and in a manner that reflects local priorities (Tala et al., 2024).

Government institutions have a significant responsibility in improving the quality of services to meet public needs, which ultimately impacts welfare levels through effective financial management (Antari & Sedana, 2018). A region's ability to manage its finances is a crucial factor in determining the effectiveness of regional autonomy (Amalia & Haryanto, 2019). The effectiveness of regional autonomy can be assessed by the degree to which local governments are capable of managing their financial resources efficiently while maintaining fiscal self-reliance (Rahayu & Hendaris, 2025). Optimal regional financial management can improve development and governance, ultimately impacting regional government performance (Sari & Mustanda, 2019). Regional financial independence is an important parameter used to assess the success of regional autonomy implementation (Novianti & Apriliawati, 2022). A regional government is considered independent when its dependence on central government funding allocations is low (Insani & Hendaris, 2025).

Based on Sampurna (2018) in the report on the results of the review of regional government fiscal independence carried out by the Audit Board of the Republic of Indonesia (BPK) as part of the adequacy of information disclosure in the 2020 Central Government Financial Report (LKPP), regional fiscal independence is grouped into several levels, as illustrated in the following table.

Table 1.

Classification of Regional Fiscal Independence

No	Percentage	Condition of Fiscal Independence
1	0% - 24,99%	Not Yet Independent



2	25% - 49,99%	Toward Independent
3	50% - 74,99%	Independent
4	75% - 100%	Very Independent

Source: Sampurna (2018) in LKPP BPK (2020)

Table 1 shows that a self-reliance ratio above fifty percent (>50%) is categorized as independent. According to the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 19 of 2020, regional financial independence is measured by comparing internally generated revenue to total regional revenue. An increase in this ratio reflects a reduced dependence on external assistance, while a decline indicates greater reliance on such support.

In practice, however, the level of regional financial independence in Indonesia—particularly among regencies and cities in North Sumatra Province—remains relatively low. As shown in Table 2, regional financial independence in North Sumatra in 2023 is still limited, with 31 regions classified as not yet independent, recording ratios below twenty-five percent (<25%) and an average independence ratio of only 9.71%.

Table 2.
Regional Financial Independence Ratio of Regencies/Cities in North Sumatra in 2023

No	Regency/City	Regional Independence Ratio	No	Regency/City	Regional Independence Ratio
1	Asahan Regency	9,47%	18	Tanjung Balai City	11,48%
2	Dairi Regency	7,14%	19	Tebing Tinggi City	13,97%
3	Deli Serdang Regency	27,20%	20	Padang Sidempuan City	8,32%
4	Karo Regency	7,25%	21	Pakpak Bharat Regency	3,63%
5	Labuhanbatu Regency	14,43%	22	Nias Selatan Regency	1,65%
6	Langkat Regency	10,53%	23	Humbang Hasundutan Regency	6,77%
7	Mandailing Natal Regency	7,24%	24	Serdang Bedagai Regency	8,80%
8	Nias Regency	12,37%	25	Samosir Regency	8,02%
9	Simalungun Regency	7,14%	26	Batu Bara Regency	10,65%
10	Tapanuli Selatan Regency	10,16%	27	Padang Lawas Regency	4,03%
11	Tapanuli Tengah Regency	6,65%	28	Padang Lawas Utara Regency	3,95%
12	Tapanuli Utara Regency	9,63%	29	Labuhanbatu Selatan Regency	6,22%
13	Toba Regency	7,85%	30	Labuhanbatu Utara Regency	5,31%
14	Binjai City	12,31%	31	Nias Utara Regency	1,77%
15	Medan City	42,10%	32	Nias Barat Regency	2,05%
16	Pematang Siantar City	14,73%	33	Gunungsitoli City	3,60%
17	Sibolga City	14,16%			

Source: www.djpk.kemenkeu.go.id

This indicates a persistently high dependence on government transfers. This dependence is considered to hamper regional fiscal flexibility in formulating



development policies tailored to local needs and widen the gap in fiscal capacity between regions (Handraini et al., 2024).

Internally generated revenue is a crucial factor in determining regional financial independence. The higher the internally generated revenue, the stronger the region's financial independence (Oktavia & Handayani, 2021). Regional independence is reflected when internally generated revenue contributes more than aid from the central government or external parties (Ernawati & Riharjo, 2017). A region is considered independent if local own-source revenue can cover the majority of its expenditures, eliminating the need for loans or assistance from the provincial government, the central government, or other parties (Malau & Parapat, 2020).

The inability of local governments to optimize their internally generated revenue has implications for the widening fiscal gap between regions with high economic capacity and those still dependent on transfers from the central government. This, in the long term, has the potential to hamper local economic growth and exacerbate development disparities between regions (Handraini et al., 2024). This condition is a significant concern in the implementation of regional autonomy, where one of the main objectives of decentralization is to encourage local governments to finance government affairs independently. Therefore, increasing internally generated revenue is key to strengthening regional financial independence (Nolarita & Winarso, 2025). High internally generated revenue is an important indicator of regional independence because it demonstrates the capacity of local governments to independently fund their needs without depending on the national government (Marselina & Herianti, 2022). Correspondingly, strengthening regional financial capacity is largely shaped by the degree to which local governments succeed in increasing regional revenue, with a focus on internally generated revenue as the principal income source (Saraswati & Nurharjanti, 2021).

Besides internally generated revenue, capital expenditure is one of the factors that can influence regional financial independence (Ernawati & Riharjo, 2017). Capital expenditure is closely associated with investments undertaken by local governments (Arsa & Setiawina, 2015). It serves as a form of regional investment, particularly through infrastructure development, which is expected to enhance community welfare and boost the standard of public service provision (Kurniawati & Muzdalifah, 2022). According to Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning Government Accounting Standards, capital expenditure refers to regional government spending whose



benefits extend beyond one fiscal year and contribute to an increase in regional assets or wealth, while also potentially resulting in greater ongoing expenditures for routine activities, such as maintenance and facility management, within the operational budget.

Increasing the allocation of public capital investment for the procurement of fixed assets, including infrastructure, equipment, and facilities and infrastructure, is very necessary because the higher the public capital investment that is required, the more funds are allocated and the greater the impetus for increasing economic productivity (Bella et al., 2022). Capital expenditure, particularly that allocated for infrastructure development, is expected to have a multiplier effect on economic growth, which in turn can enhance regional original income through increased tax and levy revenues (Andriana, 2020). The use of regional revenue for capital expenditure aims to support infrastructure development, which will improve public facilities and services to the community (Marselina & Herianti, 2022).

Previous empirical research has documented an association between internally generated revenue and the level of regional financial independence. Research conducted by Handayani & Erinos (2020), Amalia & Haryanto (2019), Bella et al. (2022), Fitriani & Syarif (2025), Fitriyani & Suwarno (2021), Akbar (2022), Malau & Parapat (2020), Gaghana et al. (2018), Oktavia & Handayani (2021), Andriani & Wahid (2018), Novianti & Ishak (2022), Wasil et al. (2020), Machfud et al. (2020) dan Setiawan et al. (2021), shows that internally generated revenue has a positive effect on regional financial independence.

On the contrary, Kusmila (2023) reported contrasting findings, indicating that internally generated revenue did not have a significant effect on regional financial independence. The study measured regional fiscal self-sufficiency using the ratio of internally generated revenue to transfer revenue, an approach that primarily reflects the degree of fiscal reliance of local governments on national-level funding. In contrast, the present study measures regional financial independence using the ratio of internally generated revenue to total regional revenue, which is considered to provide a more comprehensive representation of a region's overall fiscal capacity. This difference in measurement approaches highlights a clear research gap, namely the variation in the methods used to calculate the regional financial independence ratio. Such methodological differences, particularly when employing a broader and more comprehensive formula, may lead to divergent empirical findings regarding the influence of internally generated revenue on local fiscal independence.



Several previous studies have shown that capital expenditure has an impact on regional financial independence conducted by Bella et al. (2022), Akbar (2022), Fitriyani & Suwarno (2021), Kusmila (2023), Malau & Parapat (2020), Oktavia & Handayani (2021), Marselina & Herianti (2022), serta Novitasari & Novitasari (2019). Similar studies were also conducted by Handayani & Erinoss (2020), Andriana (2020), Amalia & Haryanto (2019), dan Fitriani & Syarif (2025) with the result that capital expenditure had no effect on regional financial independence.

Thus, a research gap is identified, namely the inconsistency in previous research findings regarding the influence of capital expenditure on regional financial independence.

LITERATURE REVIEW

Stewardship Theory

This research uses stewardship theory. Stewardship theory is the view that local government, as a steward or public resource manager, is responsible for optimally managing internally generated revenue and capital expenditures to improve public welfare and regional fiscal independence. From this perspective, local governments are assumed not to behave opportunistically but rather to be oriented toward the public interest and regional financial sustainability. Donaldson & Davis (1991) state that stewards act based on intrinsic motivations such as responsibility, commitment, and a long-term orientation toward the organization.

This perspective is relevant in the context of regional financial management, as the effectiveness of internally generated revenue and capital expenditure utilization is largely determined by the pro-organizational orientation and commitment of local governments to increasing fiscal capacity. When internally generated revenue is managed accountably, and capital expenditure is directed toward infrastructure and public services, local governments fulfill their role as stewards, supporting the achievement of regional financial independence. Therefore, stewardship theory provides a theoretical basis that good financial governance, the use of targeted capital expenditure, and optimization of internally generated revenue are forms of regional government responsibility to increase fiscal independence (Davis et al., 1997).

Regional Financial Independence

The objective of regional autonomy implementation is regional independence (Novitasari & Novitasari, 2019). Regional financial independence reflects the capacity of local governments to fund governmental functions,



development activities, and public service needs using their own financial resources (Halim, 2012, as cited in Runjung et al. 2022). Because it can characterize a region's capacity to independently finance government and development needs without significantly relying on outside financing sources, regional financial independence is one of the key factors in evaluating regional financial circumstances. Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 19 of 2020 states that this financial independence is measured by comparing internally generated revenue with total regional revenue.

$$\text{Regional Financial Independence Ratio} = \frac{\text{Internally Generated Revenue}}{\text{Total Regional Revenue}} \times 100\%$$

The ratio indicates the extent to which revenue derived from a region's economic potential contributes to total regional revenue. A higher contribution of internally generated revenue to overall regional revenue reflects an increased fiscal capacity of the region to carry out governmental functions and provide public services without being dominated by funding from the central government.

Internally Generated Revenue

Internally Generated Revenue refers to revenue generated by a region through collections conducted in accordance with prevailing laws and regulations and based on regional regulations (Antari & Sedana, 2018). According to Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, internally generated revenue consists of regional taxes, regional levies, proceeds from the management of separated regional assets, and other legitimate sources of local revenue as stipulated by laws and regulations.

From the perspective of stewardship theory, an increase in internally generated revenue reflects the role of regional governments as stewards who act in the public interest rather than for personal gain. Regional governments are considered capable of managing local potential responsibly and in an orientation toward public welfare. A high level of internally generated revenue indicates that regional officials are fulfilling the public mandate by optimizing regional resources, thereby strengthening regional fiscal independence.

Capital Expenditure

Capital expenditure consists of government expenditures aimed at financing asset acquisition and development-oriented investments that deliver



benefits over an extended period, exceeding one fiscal year (Kurniawati & Muzdalifah, 2022). Capital expenditure represents a form of regional investment undertaken by the government through the management of natural resource potential and the development of public facilities to attract investors and increase regional revenue (Alifah et al., 2023). According to Arif et al. (2010) as cited in Dwigantara & Handayani (2020), capital expenditure is spending that is not exhausted within one fiscal year and results in government fixed assets.

According to Government Regulation of the Republic of Indonesia Number 71 of 2010 on Government Accounting Standards, capital expenditure refers to regional government spending that generates benefits beyond a single fiscal year and results in an increase in regional assets or wealth. Such expenditures may also give rise to future routine costs, including maintenance expenses, which are recorded under operational expenditures. Furthermore, Government Accounting Standards Statement (PSAP) Number 2 on the Budget Realization Report characterizes capital expenditure as budget allocations intended for the acquisition of fixed assets and other long-term assets that deliver economic or service benefits over more than one accounting period.

The Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 15 of 2024, which provides guidelines for the formulation of Regional Revenue and Expenditure Budgets for the 2025 fiscal year, functions as a key reference for regional governments throughout the budget formulation process, particularly with respect to the planning and apportionment of capital expenditure. Within this framework, capital expenditure is positioned as a form of regional investment, as it is directed toward financing fixed assets that provide long-term benefits for improving public services and supporting regional development. Referring to Government Regulation of the Republic of Indonesia Number 12 of 2019 on Regional Financial Management, capital expenditure comprises several categories, including spending on land acquisition, equipment and machinery, buildings and other structures, roads, irrigation systems and networks, as well as expenditures on other fixed assets and additional asset types.

From the perspective of stewardship theory, capital expenditure reflects the commitment of regional governments as stewards in managing public resources for long-term public interests. Investment in infrastructure and regional assets demonstrates a governmental orientation toward sustainable development and the enhancement of community welfare. Well-targeted capital expenditure strengthens the stewardship function, as regional governments allocate budgets not only to meet short-term needs but also to generate long-term economic value

that can increase internally generated revenue and fiscal autonomy of local governments in the future.

Research Framework and Hypothesis Design

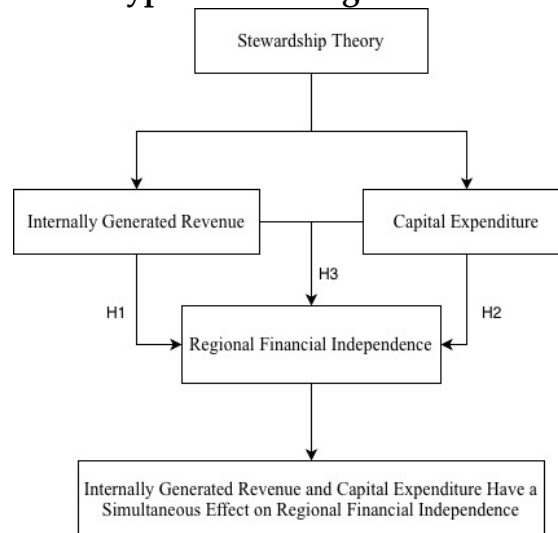


Figure 1.

Research Framework

Hypothesis

This study formulates the following hypotheses:

- H₁ : Internally generated revenue has a positive effect on regional financial independence
- H₂ : Capital expenditure has a positive effect on regional financial independence
- H₃ : Internally generated revenue and capital expenditure simultaneously have a simultaneous influence on regional financial independence.

RESEARCH METHOD

This study examines regency and city governments in North Sumatra Province as its unit of analysis. The research employs two independent variables— Internally Generated Revenue and Capital Expenditure—and one dependent variable, Regional Financial Independence. This study relied on secondary data drawn from official fiscal reports issued by the Directorate General of Fiscal Balance within Indonesia’s Ministry of Finance. The study population comprises all regencies and cities in North Sumatra Province. This study applied a census-based sampling strategy, encompassing all regencies and cities throughout the 2019–2023 observation period. Data were analyzed using multiple linear regression analysis. A series of classical assumption tests—



including normality, multicollinearity, heteroscedasticity, and autocorrelation— were performed before regression estimation. The explanatory performance of the model was analyzed using the coefficient of determination along with correlation measures. Furthermore, hypothesis testing employed both partial (t-test) and simultaneous (f-test) approaches.

RESULTS AND DISCUSSION

1) Normality Test Results

Normality testing of the data using the normal probability plot test yielded the following results:

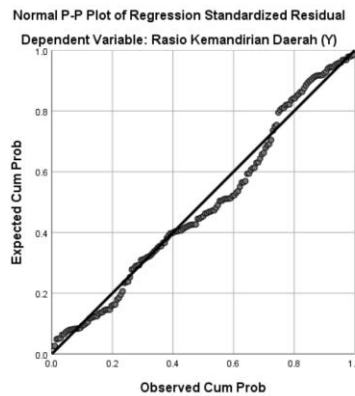


Figure 2.
Normal Probability Graphic

The normality test depicted in Figure 2 reveals that the standardized residuals are distributed in a pattern that closely follows the diagonal line in the Normal P–P Plot. This indicates the absence of significant skewness or kurtosis in the residual distribution. Consequently, the residuals can be considered normally distributed, confirming that the regression model meets the normality requirement.

2) Multicollinearity Test Results

Table 3.
Multicollinearity Test Results



Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Internally Generated Revenue (X1)	.273	3.665
	Capital Expenditure (X2)	.273	3.665

a. Dependent Variable: Regional Independence Ratio (Y)

Based on the results reported in Table 3, the tolerance value of 0.273 exceeds the commonly accepted threshold of 0.10, while the Variance Inflation Factor (VIF) value of 3.665 remains well below the critical limit of 10.00. These findings indicate that there is no strong linear relationship among the independent variables included in the model. Accordingly, it can be concluded that the regression model is free from multicollinearity, allowing each explanatory variable to independently contribute to explaining variations in the dependent variable.

3) Heteroscedasticity Test

Table 4.
Heteroscedasticity Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.658	.236		11.257	.000
	Internally Generated Revenue (X1)	1.700E-12	.000	.358	1.912	.058
	Capital Expenditure (X2)	-2.803E-12	.000	-.314	-1.727	.086

a. Dependent Variable: AbsRes

As shown in Table 4, the significance levels for internally generated revenue (X₁) and capital expenditure (X₂) are 0.058 and 0.086, respectively, both exceeding the 0.05 significance threshold. These results suggest that neither independent variable has a statistically significant effect on the absolute residual values. Consequently, the variance of the residuals can be considered constant across observations, indicating that the regression model satisfies the assumption of homoscedasticity and does not suffer from heteroscedasticity.

4) Autocorrelation Test

Table 5.



Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.906 ^a	.820	.818	2.91717	1.735
a. Predictors: (Constant), Capital Expenditure (X2), Internally Generated Revenue (X1)					
b. Dependent Variable: Regional Independence Ratio (Y)					

Referring to the results shown in Table 5, the obtained Durbin–Watson value is 1.735, which falls within the acceptable range and is close to the ideal value of 2. This result suggests that the residuals generated by the regression model are independent and do not exhibit systematic correlation over time. Accordingly, neither positive nor negative autocorrelation is detected in the model. The fulfillment of this assumption indicates that the regression estimates are unbiased and efficient, thereby confirming that the model meets the requirement of autocorrelation-free residuals and is appropriate for further empirical analysis.

5) 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)	8.038	.408		19.692	.000
	Internally Generated Revenue (X1)	2.197E-11	.000	1.153	18.082	.000
	Capital Expenditure (X2)	-1.098E-11	.000	-.307	-4.819	.000
a. Dependent Variable: Regional Independence Ratio (Y)						

Based on the results of the multiple linear regression analysis presented in Table 6, the following regression equation is obtained.

$$Y = 8,038 + 2,197E-11 X_1 - 1,098E-11 X_2.$$

The constant value of 8.038 indicates that when internally generated revenue and capital expenditure are equal to zero, the regional financial independence Ratio is 8.038 percent. The regression coefficient of internally generated revenue (X₁) is positive at 2.197E-11, indicating that an increase in internally generated revenue leads to an increase in the regional financial independence ratio. Based on the Standardized Beta value of 1.153, internally generated revenue is identified as the most dominant variable. In contrast, the regression coefficient of capital expenditure (X₂) is negative at -1.098E-11, indicating that an increase in capital expenditure reduces the regional financial



independence ratio. Its influence is relatively smaller than that of internally generated revenue, as reflected by the Standardized Beta value of -0.307 .

6) Coefficient of Determination Analysis

Table 7.
Results of the Determination Coefficient Analysis

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.906 ^a	.820	.818	2.91717	1.735
a. Predictors: (Constant), Capital Expenditure (X2), Internally Generated Revenue (X1)					
b. Dependent Variable: Regional Independence Ratio (Y)					

As reported in Table 7, the coefficient of determination (R^2) reaches a value of 0.820, indicating that internally generated revenue (X_1) and capital expenditure (X_2) jointly account for 82.0% of the total variation in the regional financial independence ratio (Y). This high explanatory power suggests that the model is able to capture most of the factors influencing regional financial independence. The remaining 18.0% of the variation is attributable to other determinants not included in the model, such as institutional capacity, intergovernmental transfers, or regional economic conditions. Overall, this finding demonstrates that internally generated revenue and capital expenditure play a dominant and meaningful role in shaping the fiscal independence of regencies and municipalities in North Sumatra Province.

7) Correlation Coefficient Analysis

Table 8.
Results of X1 Correlation Coefficient Analysis



Correlations			
		Internally Generated Revenue (X1)	Regional Independence Ratio (Y)
Internally Generated Revenue (X1)	Pearson Correlation	1	.891**
	Sig. (2-tailed)		.000
	N	165	165
Regional Independence Ratio (Y)	Pearson Correlation	.891**	1
	Sig. (2-tailed)	.000	
	N	165	165

** . Correlation is significant at the 0.01 level (2-tailed).



Table 9. Results of X2 Correlation Coefficient Analysis

Correlations			
		Capital Expenditure (X2)	Regional Independence Ratio (Y)
Capital Expenditure (X2)	Pearson Correlation	1	.676**
	Sig. (2-tailed)		.000
	N	165	165
Regional Independence Ratio (Y)	Pearson Correlation	.676**	1
	Sig. (2-tailed)	.000	
	N	165	165

** . Correlation is significant at the 0.01 level (2-tailed).

The results of the Pearson correlation analysis shown in Tables 8 and 9 reveal that internally generated revenue (X_1) has a very strong and positive association with the regional financial independence ratio (Y). This relationship is reflected in a correlation coefficient of 0.891, which is statistically significant at the 1% level ($p < 0.01$). These findings indicate that higher levels of internally generated revenue tend to be accompanied by higher levels of regional financial independence. In addition, capital expenditure (X_2) is also positively correlated with regional financial independence, although the strength of the relationship is relatively lower compared to internally generated revenue. This is evidenced by a correlation coefficient of 0.676 with a significance value of 0.000 ($p < 0.01$). Overall, the results suggest that both variables are closely associated with regional financial independence, with internally generated revenue playing a more dominant role.

8) T Test

Table 10. T Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.038	.408		19.692	.000
	Internally Generated Revenue (X1)	2.197E-11	.000	1.153	18.082	.000
	Capital Expenditure (X2)	-1.098E-11	.000	-.307	-4.819	.000

a. Dependent Variable: Regional Independence Ratio (Y)



a. The Effect of Internally Generated Revenue on Regional Financial Independence

Referring to the t-test results reported in Table 10, internally generated revenue records a t-statistic of 18.082, which is substantially higher than the critical value of 1.990, indicating statistical significance at the 5% level ($p = 0.000$). Consequently, the null hypothesis (H_0) is rejected, while the alternative hypothesis (H_a) is accepted. This result confirms that, when examined individually, internally generated revenue exerts a positive and significant influence on the regional financial independence ratio.

This empirical evidence implies that an increase in internally generated revenue strengthens the capacity of regional governments to independently fund both routine governmental operations and development initiatives, thereby reducing dependence on fiscal transfers from the central government. Such an outcome reflects more effective utilization and management of local economic potential, particularly through the optimization of regional taxes, service charges, and returns from regionally owned assets. Furthermore, higher internally generated revenue enhances fiscal flexibility, allowing local governments to allocate resources in a manner that is more responsive to regional priorities. In this regard, internally generated revenue functions not only as a source of income but also as a strategic instrument for reinforcing regional autonomy and expanding fiscal space to support long-term and sustainable regional development.

b. The Effect of Capital Expenditure on Regional Financial Independence

Based on the t-test outcomes reported in Table 10, capital expenditure (X_2) yields a t-statistic of -4.819 , which is below the critical threshold of -1.990 and is statistically significant at the 5% level ($p = 0.000$). Accordingly, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted, confirming that capital expenditure, when assessed individually, has a negative and significant effect on the regional financial independence ratio.

This finding suggests that increases in capital expenditure are not necessarily followed by immediate improvements in regional financial independence. One plausible explanation is that capital expenditure is predominantly allocated to long-term physical investments, including infrastructure development and public facilities, whose economic returns and contributions to regional revenue tend to emerge gradually over time rather than in the short term. As a result, substantial capital spending in a particular fiscal



year may temporarily limit the availability of resources for operational activities and revenue-generating economic programs that have a more direct impact on regional income. Nonetheless, from a long-term developmental standpoint, capital expenditure remains a vital form of regional investment, as it has the potential to enhance productive capacity, stimulate economic growth, and ultimately strengthen fiscal independence in subsequent periods.

9) F Test

Table 11. F Test Results

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6287.121	2	3143.560	369.400	.000 ^b
	Residual	1378.604	162	8.510		
	Total	7665.725	164			
a. Dependent Variable: Regional Independence Ratio (Y)						
b. Predictors: (Constant), Capital Expenditure (X2), Internally Generated Revenue (X1)						

Referring to the results of the simultaneous F-test reported in Table 11, the model produces an F-statistic of 369.400, which substantially exceeds the critical F-value of 3.11 and is statistically significant at the 5% level ($p < 0.001$). Based on these findings, the null hypothesis (H_0) cannot be supported, whereas the alternative hypothesis (H_a) is supported. This outcome confirms that internally generated revenue and capital expenditure, when considered jointly, exert a substantial impact on the regional financial independence ratio. In this context, the combination of revenue-generating capacity and expenditure allocation patterns holds a fundamental role in explaining variations in the degree of fiscal independence across regencies and municipalities.

From a theoretical perspective, these results align with stewardship theory, which emphasizes the role of regional government officials as stewards entrusted with the responsibility of managing public resources to maximize collective welfare rather than individual interests. Strong internally generated revenue reflects the effectiveness of local governments in mobilizing and managing regional economic potential, while prudent capital expenditure demonstrates a long-term commitment to development-oriented investment. Together, these two fiscal components indicate a governance approach that prioritizes accountability, efficiency, and sustainability in public financial management.

Moreover, the simultaneous significance of internally generated revenue and capital expenditure suggests that regional financial independence cannot be achieved solely through revenue enhancement or expenditure expansion in



isolation. Instead, it requires a balanced and integrated fiscal strategy in which revenue mobilization is complemented by strategic and productive investment spending. Therefore, the findings reinforce the notion that regional governments functioning as responsible stewards are more likely to strengthen fiscal independence by managing both revenue and expenditure in a transparent, sustainable, and development-driven manner.

CONCLUSION

Drawing on the findings of the hypothesis testing and the comprehensive data analysis discussed in the preceding chapter, which examined the effects of internally generated revenue and capital expenditure on regional financial independence in North Sumatra Province over the 2019–2023 period, several conclusions can be derived as follows:

1. The realization of internally generated revenue in regencies and municipalities of North Sumatra Province during the 2019–2023 period exhibited notable fluctuations, reflecting variations in the capacity of regional governments to mobilize and manage local revenue sources. These fluctuations indicate differences in fiscal performance across regions, which may be influenced by factors such as economic structure, administrative efficiency, tax compliance, and the effectiveness of local revenue policies. Overall, the observed dynamics highlight the ongoing challenges faced by regional governments in optimizing internally generated revenue as a sustainable source of funding to support regional development and strengthen fiscal independence.
2. The realization of capital expenditure in regencies and municipalities of North Sumatra Province over the 2019–2023 period demonstrated fluctuating patterns, as evidenced by year-to-year variations in expenditure levels. These fluctuations reflect differences in regional development priorities, fiscal capacity, and policy orientation among local governments. Variations in capital expenditure allocation may also be influenced by changes in regional development strategies, infrastructure needs, and the availability of financial resources in each fiscal year. Overall, the observed pattern indicates that capital expenditure planning and implementation remain dynamic across regions, highlighting the diverse approaches adopted by local governments in supporting long-term development and public service improvement through investment spending.



3. The regional financial independence ratio in regencies and municipalities of North Sumatra Province over the 2019–2023 period exhibited considerable year-to-year instability, indicating fluctuations in the ability of local governments to finance their activities independently. Despite these variations, the overall pattern reveals that the level of regional financial independence remains relatively low. This condition suggests a continued and substantial reliance on fiscal transfers from the central government to support regional expenditure and development programs. The persistence of low financial independence highlights structural challenges in strengthening local revenue capacity and underscores the need for more effective fiscal strategies to reduce intergovernmental dependency and enhance regional autonomy.
4. Internally generated revenue has a positive and statistically significant effect on regional financial independence. This result indicates that the strengthening of locally sourced revenue enhances the fiscal capacity of regional governments to carry out public administration and development activities without excessive dependence on external funding. As locally generated income increases, the reliance on intergovernmental transfers tends to decline, allowing regional governments greater flexibility in managing their budgets. Consequently, improved revenue mobilization contributes to stronger fiscal autonomy and supports long-term regional development through a more sustainable and self-sufficient financial structure.
5. Capital expenditure is found to have a negative and statistically significant effect on regional financial independence. This result suggests that higher allocations of capital expenditure do not immediately translate into increased fiscal independence. One possible explanation is that capital expenditure is largely directed toward long-term investments, such as infrastructure development and public facilities, whose economic returns are realized gradually rather than in the short term. Consequently, substantial capital spending in a particular fiscal year may temporarily constrain the availability of funds for revenue-generating activities. Nevertheless, despite its short-term negative association, capital expenditure remains a strategic instrument for long-term economic growth and has the potential to enhance regional financial independence in future periods.
6. The simultaneous testing results indicate that internally generated revenue and capital expenditure jointly have a significant effect on regional financial independence. This finding demonstrates that regional fiscal independence is not determined by revenue generation or expenditure allocation in isolation,



but rather by the interaction between the two. Effective mobilization of local revenue, combined with well-targeted capital investment, reflects responsible fiscal management and supports the achievement of sustainable regional autonomy. In this regard, regional governments that successfully balance revenue enhancement with strategic expenditure planning are better positioned to strengthen their long-term fiscal capacity.

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