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The Influence of Local Revenue and Balancing Funds on Capital Expenditure with Economic Growth as an Intervening Variable

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Abstract: This research employs economic growth as an intervening variable to analyze the impact of local revenue and equalization funds on capital expenditure. It falls under the category of quantitative research and utilizes secondary data sourced from https://jambi.bps.go.id/id and www.djpk.kemenkeu.go.id. The study's population consists of all district and city governments in Jambi Province. However, by applying a saturated sampling technique, 66 data points were selected for analysis. The findings indicate that local revenue positively influences economic growth, while equalization funds have a negative effect on economic growth. Additionally, local revenue does not significantly impact capital expenditure, whereas equalization funds positively influence capital expenditure. Furthermore, economic growth does not affect capital expenditure. The results of the Sobel test, used for hypothesis testing, suggest that economic growth does not mediate the relationship between local revenue and capital expenditure, nor does it mediate the relationship between equalization funds and capital expenditure.

Keyword: Regional Original Revenue, Balance Fund, Economic Growth, & Capital Expenditure.

INTRODUCTION

Since the enactment of Law No. 33 of 2004, which governs the financial distribution system between the central and local governments (Lailiyah & Desitama, 2024). local governments have been granted the authority to manage regional funds for the benefit of the community. Regional autonomy enables local governments to independently manage their finances, enhancing the effectiveness of financial administration and optimizing budget allocation according to regional needs (Bella, 2022).

Local governments allocate capital expenditure in the APBD to increase fixed assets and provide adequate public facilities and infrastructure. Effective capital expenditure planning can improve the quality of public services and attract investment. Good infrastructure will increase regional economic productivity and encourage the growth of regional own-source revenue (PAD). However, in practice, capital expenditure is often used as routine expenditure that is less productive. Therefore, there is a need for a more optimal allocation strategy so that capital

expenditure actually contributes to economic growth and community welfare significantly (Utami & Riharjo, 2021).

Capital expenditure, one of the many components that make up regional spending, is crucial to the development of infrastructure and the enhancement of public services. Capital expenditures are financed by equalization funds and regional original revenue (PAD) (Asmawiah & Sulistiyo, 2022). Long-term investments that encourage improvements in public services and government assets are known as capital expenditures. According to Alpin & Sirait (2024), capital expenditures are essential for the development of infrastructure and facilities, which support the expansion of the regional economy. To reduce dependence on federal subsidies, local governments must maximize regional potential (Mahardika & Fauzan, 2022).

Law No. 33/2004 stipulates that local own-source revenue (PAD) is a source of independent local revenue, including taxes, levies, and the results of local property management. PAD plays an important role in regional financing, so its utilization must be optimal. In addition, balancing funds from the APBN are allocated to reduce financial disparities between regions and support decentralization. This balancing system aims to ensure a fair, transparent, and efficient allocation of funds (Hadi & Kusuma, 2023). Economic growth reflects an increase in the production of goods and services that have an impact on the welfare of the community and regional progress. Economic stability supports the optimization of public services and regional development through local revenue. In addition, infrastructure and industrial development can reduce local government dependence on the central government (Hadi & Kusuma, 2023).

The 11 districts and cities that make up Jambi Province have different capital expenditure realization rates from 2018 to 2023. The largest capital expenditures were made in Tanjung Jabung Barat Regency and Jambi City, with Tanjung Jabung Barat surpassing IDR 600 billion in 2019 and Jambi City stabilizing at almost IDR 500 billion by 2023. Sungai Penuh, Batanghari, Bungo, Kerinci, and Sarolangun, on the other hand, are often inexpensive, with prices under 200 billion rupiah. In 2023, Batanghari increased significantly, reaching 400 billion rupiah. Below 300 billion rupiah, the trend in other districts is steady (DJPK, 2023). It is anticipated that capital expenditures, notably those for infrastructure, will boost economic growth and raise municipal revenue (Andriana, 2020).

This study refers to Asmawiah & Sulistiyo (2022) by adding Dana Perimbangan as an independent variable and Economic Growth as an intervening variable for a more comprehensive analysis. Unlike the previous study that only examined the direct relationship between PAD and Capital Expenditure in West Java, this study focuses on districts/cities in Jambi for the period 2018-2023 to capture the impact of the pandemic and economic recovery. The selection of Jambi allows the analysis of regional fiscal policies in the face of financial reforms and economic challenges. The researcher wants to learn more about "The Effect of Regional Original Revenue and Balance Fund on Capital Expenditure with Economic Growth as an Intervening Variable (Empirical Study on Regency / City Regional Governments in Jambi Province 2018-2023)" based on the description given above.

The stewardship theory proposed by Donaldson and Davis (1991) emphasizes the close relationship between organizational success and the satisfaction of resource owners. In the context of government, the community as the main owner of resources entrusts its management to the government. Therefore, the government has the responsibility to implement policies that are oriented towards public welfare, so that the level of public satisfaction increases along with the government's success in achieving these goals (Eksandy et al., 2019).

METHOD

The research objects in this study are economic growth, capital expenditure, balancing funds, and local revenue. This study focuses on two and nine District and City Governments in

Jambi Province. Quantitative techniques and statistical algorithms are used to analyze the facts and data collected in this study. One of the studies that uses secondary data is this study. Secondary data for each District and City in Jambi Province, covering a six-year time series from 2018 to 2023, was obtained for this study from the Jambi Province Central Statistics Agency (https://jambi.bps.go.id/id) and the official website of the Directorate General of Fiscal Balance, Ministry of Home Affairs (www.djpk.kemenkeu.go.id). The population of this study consisted of nine districts and two cities that were included in the District and City Governments of Jambi Province in 2018–2023.

The sampling technique used in this study was saturated sampling. Saturated sampling is carried out when the population is small, so that the entire population is used as a research sample. A total of 11 districts/cities in Jambi Province were used as samples from 2018 to 2023. Because the research period was 6 years, the number of samples used was 66 samples.

Table 1. Operational Definition of Variables

Variables	Variable Definition	Variable Indicator	Scale
Dependent Variable (Y) Capital Expenditures	The budget of the local government includes capital expenditures, which are used to buy or build fixed assets including equipment, buildings, and roads. These assets are expected to provide long-term benefits to society (Halim, 2014).	Capital Expenditure = Capital Expenditure on Land + Capital Expenditure on Equipment and Machinery + Capital Expenditure on Buildings and Structures + Capital Expenditure on Roads, Irrigation and Networks + Other Physical Capital Expenditure. Capital expenditure indicators are converted in natural logarithm form. (Halim, 2014)	Ratio
Independent Variable (X_1) Locally-generated revenue	Regional Original Income (PAD) is the main source of regional government income obtained through tax collections, levies and the results of regional wealth management in accordance with regional regulations and applicable laws (Law Number 33 of, 2004).	Locally-generated revenue = Regional Tax + Regional Levy from Separated Wealth Management + Other Legitimate Income. The regional original income indicator is converted in natural logarithm form. (Halim & Kusufi, 2014)	Ratio
Independent Variable Balancing Fund (X_2)	The Balancing Fund is part of the state budget allocated to regional governments with the aim of equalizing prosperity between regions and supporting the implementation of regional autonomy (Law Number 33 of, 2004).	Balancing Fund = Profit Sharing Fund + Allocation Fund + General Allocation Fund + Special Allocation Fund. The balanced fund indicator is converted in natural logarithm form. (Siregar, 2017)	Ratio
Intervening variables Economic growth (Z)	The economic growth of a region is characterized by increased production of goods and services, which is usually measured through GRDP (Putra et al., 2024).	$\text{Economic growth} = \frac{\text{PDRBt} - \text{PDRBt}-1}{\text{PDRBt}-1} \text{x } 100\%$ (Fakhruddin et al., 2024)	Ratio

Source: Data processed by researchers, 2025

SPSS version 27 is used in this study to analyze the data, which includes route analysis, descriptive statistics, model feasibility testing, traditional assumption testing, and hypothesis testing. Additionally, the interaction between Original Regional Income and Balancing Funds on Capital Expenditures is examined using the Sobel Test to determine the impact of Economic Growth as an intervening variable.

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2. Descriptive Statistical Test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Locally-generated revenue	54	24.26	26.83	25.3689	.57757
Balancing Fund	54	27.04	27.93	27.5513	.19725
Capital Expenditures	54	25.02	27.27	26.2141	.46499
Economic growth	54	.35	6.73	4.3996	1.37780
Valid N (listwise)	54				

Source: SPSS version 27 data processing results by researchers, 2025

After accounting for outliers, the overall data consists of 54 samples spanning 6 years, from 2018 to 2023. According to Ghozali (2018), anomalous data may be outliers. Descriptive statistics reveal that Regional Original Revenue (PAD) has an average of 25.3689, a standard deviation of 0.57757, and a range of 24.26 to 26.83. With an average value of 27.5513 and a standard deviation of 0.19725, the balancing funds varied from 27.04 to 27.93. With a standard deviation of 0.46499 and an average of 26.2141, capital expenditure fluctuated between 25.02 and 27.27. As an intervening variable, economic growth ranges from 0.35 to 6.73, with a standard deviation of 1.37780 and an average of 4.3996.

Sub-Structure I

Normality Test

Table 3. Kolmogorov-Smirnov Statistical Test for Sub-structure I

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			54
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		1.29180711
Most Extreme Differences	Absolute		.116
	Positive		.083
	Negative		-.116
Test Statistic			.116
Asymp. Sig. (2-tailed)[c]			.068
Monte Carlo Sig. (2-tailed)[d]	Sig.		.067
	99% Confidence Interval	Lower Bound	.060
		Upper Bound	.073

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 334431365.

Source: SPSS version 27 data processing results by researchers, 2025

The Kolmogorov-Smirnov normality test for Sub-Structure I produces a significance value of 0.200, indicating that 0.068 is greater than 0.05. This result confirms that, after accounting for outliers, the data is normally distributed.

Multicollinearity Test

Table 4. Multicollinearity test results for Sub-structure I

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	56.160	26.313		2.134	.038		
Locally-generated revenue	.849	.377	.356	2.253	.029	.691	1.448
Balancing Fund	-2.660	1.103	-.381	-2.411	.020	.691	1.448

a. Dependent Variable: Economic growth

Source: SPSS version 27 data processing results by researchers, 2025

According to multicollinearity tests, all of the computed VIF values are ≤ 10 and the determined tolerance value is ≥ 0.10. We can conclude that each independent variable in sub-structure I does not exhibit multicollinearity.

Autocorrelation Test

Table 5. Durbin-Watson Autocorrelation Test Results for Sub-structure I

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.348[a]	.121	.086	1.31689	1.755

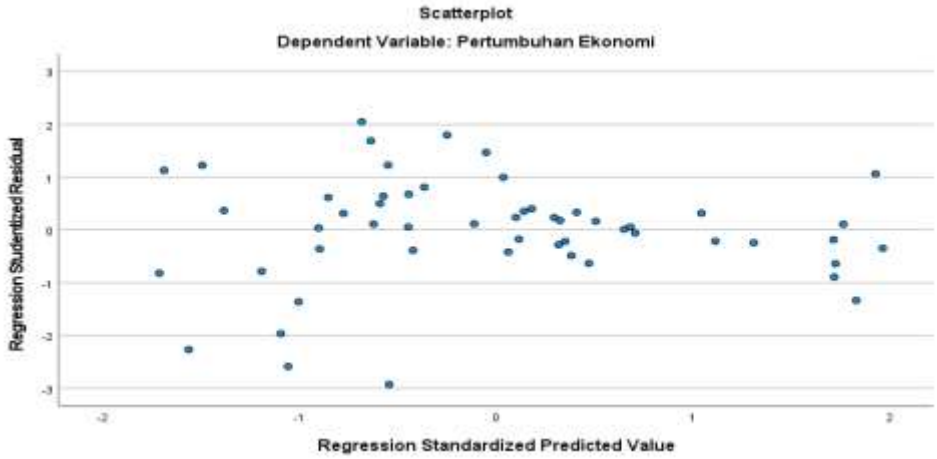
a. Predictors: (Constant), Balancing Fund, Locally-generated revenue

b. Dependent Variable: Economic growth

Source: SPSS version 27 data processing results by researchers, 2025

Testing autocorrelation that the DW value is 1.755 and it can be concluded that there is no correlation because -2 ≤ 1.755 ≤ +2. Sub-structure I can also be concluded as a good regression model because there is no autocorrelation either positive or negative.

Heteroscedasticity Test



Source: SPSS version 27 data processing results by researchers, 2025

Figure 1. Heteroscedasticity Test Results for Sub-structure I

Heteroscedaticity testing demonstrates that the dots do not form a discernible pattern. The dots spread above and below the number 0 on the Y axis, hence it can be inferred that there is no heteroscedasticity problem in the regression model.

Sub-Structure II
Normality Test

Table 6. Kolmogorov-Smirnov Statistical Test Sub-structure II

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			54
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.38627596
Most Extreme Differences	Absolute		.094
	Positive		.059
	Negative		-.094
Test Statistic			.094
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.267
	99% Confidence Interval	Lower Bound	.255
		Upper Bound	.278

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 624387341.

Source: SPSS version 27 data processing results by researchers, 2025

The Kolmogorov-Smirnov normality test for Sub-Structure II shows a significance value of 0.200 (0.200 > 0.05), indicating that the data is normally distributed after accounting for outliers.

Multicollinearity Test

Table 7. Structure Multicollinearity Test Results II

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1 (Constant)	-9.710	8.294		-1.171	.247		
Locally-generated revenue	.002	.119	.003	.017	.986	.628	1.592
Balancing Fund	1.303	.352	.553	3.704	.001	.620	1.613
Economic growth	-.005	.042	-.014	-.108	.914	.879	1.138

a. Dependent Variable: Capital Expenditures

Source: SPSS version 27 data processing results by researchers, 2025

According to multicollinearity tests, all of the computed VIF values are ≤ 10 and the determined tolerance value is ≥ 0.10. We can conclude that each independent variable in sub-structure II does not exhibit multicollinearity.

Autocorrelation Test

Table 8. Durbin-Watson Sub-structure Autocorrelation Test Results II

Model Summary[b]

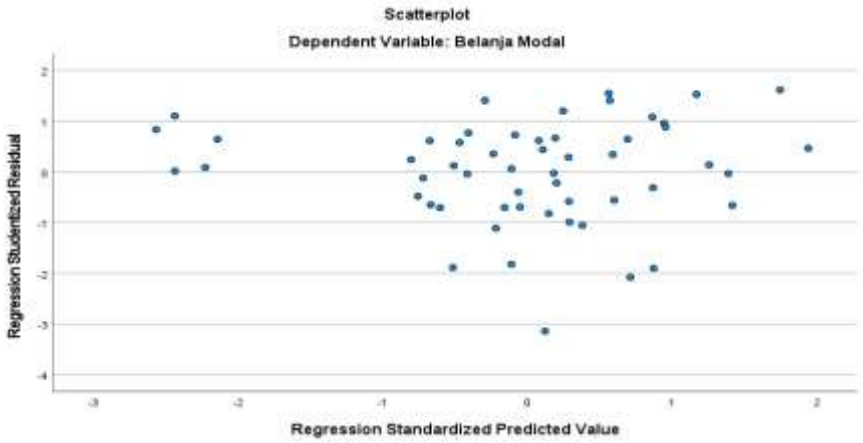
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.557[a]	.310	.268	.39770	1.200

a. Predictors: (Constant), Economic growth, Locally-generated revenue, Balancing Fund
b. Dependent Variable: Capital Expenditures

Source: SPSS version 27 data processing results by researchers, 2025

Testing autocorrelation that the DW value is 1.200 and it can be concluded that there is no correlation because $-2 \leq 1.200 \leq +2$. Sub-structure II can also be concluded as a good regression model because there is no autocorrelation either positive or negative.

Heteroscedasticity Test



Source: SPSS version 27 data processing results by researchers, 2025

Figure 2. Results of Sub-structure Heteroscedasticity Test II

Heteroscedaticity testing demonstrates that the dots do not form a discernible pattern. The dots spread above and below the number 0 on the Y axis, hence it can be inferred that there is no heteroscedasticity problem in the regression model.

Coefficient of Determination of Sub-structure I

Table 9. Coefficient of Determination of Sub-structure I

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.348[a]	.121	.086	1.31689

a. Predictors: (Constant), Balancing Fund, Locally-generated revenue
b. Dependent Variable: Economic growth

Source: SPSS version 27 data processing results by researchers, 2025

The coefficient of determination (adjusted R^2) for the first substructure is 0.086, or 8.6%. This indicates that Regional Original Revenue and Balance Funds influence 8.6% of Economic Growth from 2018 to 2023, while the remaining 91.4% is affected by other factors not included in this study.

Coefficient of Determination of Sub-structure II

Table 10. Coefficient of Determination of Sub-structure II

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.557[a]	.310	.268	.39770

a. Predictors: (Constant), Economic growth, Locally-generated revenue, Balancing Fund
b. Dependent Variable: Capital Expenditures
Source: SPSS version 27 data processing results by researchers, 2025

The coefficient of determination (adjusted R^2) for Sub-structure II shows an adjusted R^2 value of 0.268, or 26.8%. This means that Local Revenue, Balance Funds, and Economic Growth contribute 26.8% to Capital Expenditure from 2018 to 2023, while the remaining 73.2% is influenced by other factors not considered in this study.

Feasibility Test of Sub-Structure Model I

Table 11. Sub-structure F Statistical Test Results I

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.167	2	6.084	3.508	.037[b]
	Residual	88.445	51	1.734		
	Total	100.612	53			

a. Dependent Variable: Economic growth
b. Predictors: (Constant), Balancing Fund, Locally-generated revenue
Source: SPSS version 27 data processing results by researchers, 2025

Sub-structure I's F test findings indicate a significance value of 0.037, which is less than 0.05. This demonstrates that it is possible to test the hypothesis using the regression model employed in this investigation.

Feasibility Test of Sub-Structure Model II

Table 12. Sub-structure F Statistical Test Results II

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.551	3	1.184	7.484	.000[b]
	Residual	7.908	50	.158		
	Total	11.459	53			

a. Dependent Variable: Capital Expenditures
b. Predictors: (Constant), Economic growth, Locally-generated revenue, Balancing Fund
Source: SPSS version 27 data processing results by researchers, 2025

Sub-structure II's F test findings indicate a significance value of 0.000, which is less than 0.05. This demonstrates that it is possible to test the hypothesis using the regression model employed in this investigation.

Sub-Structure t-Test I

Table 13. Results of the t-test for Sub-structure I

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	56.160	26.313		2.134	.038
	Locally-generated revenue	.849	.377	.356	2.253	.029
	Balancing Fund	-2.660	1.103	-.381	-2.411	.020

a. Dependent Variable: Economic growth

Source: SPSS version 27 data processing results by researchers, 2025

The t_{table} value is 2.008 with a significant (sig) of 0.029 <0.05 and a t_{table} value of $\alpha = 0.05$ and DF; (n-k-1) = DF; 54-2-1 = 51. The results of the partial test can be explained as follows:

a) The hypothesis test results show that Regional Original Income (X_1) has a t_{count} value of 2.253, while t_{table} is 2.008, with a significance level (sig) of 0.029 < 0.05. Since $t_{count} > t_{table}$ and the significance value is below 0.05, it can be concluded that Regional Original Income has an effect on Economic Growth, leading to the acceptance of H_1.

b) The hypothesis testing results indicate that the Balance Fund (X_2) has a t_{count} value of -2.411, while t_{table} is 2.008, with a significance level (sig) of 0.020 < 0.05. Since t_{count} falls outside the range of $-t_{table}$ to t_{table} and the significance value is less than 0.05, it can be concluded that the Balance Fund has a significant effect on Economic Growth, either individually or partially, resulting in the acceptance of H_2.

Sub-Structure t-Test II

Table 14. Results of the t-test for Sub-structure II

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.710	8.294		-1.171	.247
	Locally-generated revenue	.002	.119	.003	.017	.986
	Balancing Fund	1.303	.352	.553	3.704	.001
	Economic growth	-.005	.042	-.014	-.108	.914

a. Dependent Variable: Capital Expenditures

Source: SPSS version 27 data processing results by researchers, 2025

The t_{table} value is 2.009 with $\alpha = 0.05$ and DF; (n-k-1) = DF; 54-3-1 = 50. The following explanation applies to partial test results:

a) The hypothesis testing results show that the t_{count} value for Regional Original Income (X_1) is 0.017, while the t_{table} value is 2.009, with a significance level (sig) of 0.986 > 0.05. Based on these findings, it can be concluded that Local Revenue has no significant effect on Capital Expenditure, either partially or entirely. Since t_{count} is smaller than t_{table} and the significance value exceeds 0.05, H_3 is rejected.

b) b) The hypothesis testing results indicate that the Balance Fund (X_2) has a t_{count} value of 3.704, while t_{table} is 2.009, with a significance level (sig) of 0.001 < 0.05. This suggests that the Balance Fund has a direct or indirect influence on Economic Growth. As t_{count} is greater than t_{table} and the significance value is below 0.05, H_4 is accepted.

c) The hypothesis test results for Economic Growth (Z) show a t_{count} value of -0.108, while t_{table} is 2.009, with a significance level (sig) of 0.914 > 0.05. From these results, it can be

inferred that Economic Growth does not significantly affect Economic Growth, either partially or entirely. Since t_{count} falls within the range of $-t_{table} < t_{count} \leq t_{table}$ and the significance value is greater than 0.05, H_5 is rejected.

Path Analysis

Table 15. Path Analysis

Variables	Direct Influence	Indirect Influence	Total Influence
X_1 in relation to Z	0.356	-	0.356
X_2 in relation to Z	-0.381	-	-0.381
X_1 in relation to Y	0.003	-	0.003
X_2 in relation to Y	0.553	-	0.553
Z in relation to Y	-0.014	-	-0.014
X_1 in relation to Y through Z	-	-0.004984	-0.001984
X_2 in relation to Y through Z	-	0.005334	0.558334

Source: Data processed by researchers, 2025

To determine the indirect effect of Local Revenue (X_l) on Capital Expenditure (Y) through Economic Growth (Z), the standardized coefficients (Beta) of the independent variable's effect on the dependent variable are multiplied (0.356 × -0.014 = -0.004984). Next, the standardized coefficient (Beta) of the independent variable's direct effect on the dependent variable is combined with the indirect effect of each independent variable (0.003 – 0.004984 = -0.001984) to calculate the total effect of Local Revenue on Capital Expenditure through Economic Growth.

Similarly, the indirect effect of the Balance Fund (X_2) on Capital Expenditure (Y) through Economic Growth (Z) is obtained by multiplying the standardized coefficients (Beta) of the independent variable's effect on the dependent variable (-0.381 x -0.014 = 0.005334). The total effect of the Balance Fund on Capital Expenditure through Economic Growth is determined by summing the standardized coefficient (Beta) of the direct effect of the independent variable on the dependent variable with its indirect effect (0.553 + 0.005334 = 0.558334).

Sobel Test

By multiplying the coefficient of the independent variable on the intervening and the intervening variable on the dependent variable, the Sobel test determines whether or not the indirect influence of the intervening variable, as revealed by the Sobel test, is significant (Ghozali, 2018).

a) The Effect of Local Revenue on Capital Expenditure with Economic Growth as the Intervening Variable.

The value of the intervening impact coefficient, as determined by the indirect effect calculation, is -0.004984. The following is the indirect effect coefficient's standard error:

	Input:		Test statistic:	Std. Error:	*p*-value:
a	0.849	Sobel test:	-0.11888163	0.03570779	0.90536914
b	-0.005	Aroian test:	-0.10867617	0.039061	0.91345934
s_a	0.377	Goodman test:	-0.13263484	0.03200517	0.89448218
s_b	0.042	Reset all	Calculate		

Source: Data processed by researchers, 2025

Figure 3. Intervening Test of Variable Y for X1 to Z

Figure 3 illustrates that the t_{count} value is lower than the t_{table} value (-0.118 < 2.008) and the significance level exceeds 0.05 (0.905 > 0.05). Since t_{count} falls within the range of $-t_{table} \leq t_{count}t \leq t_{table}$ and the significance value is greater than 0.05, it can be concluded that the Economic Growth variable, with an effect of -0.004984, cannot serve as an intervening variable in the relationship between Local Revenue and Capital Expenditure. Consequently, H_6 is rejected.

b) The Effect of Balance Fund on Capital Expenditure with Economic Growth as the Intervening Variable.

The intervening effect's coefficient, as determined by the indirect impact calculation, is 0.005334. The following is the indirect effect coefficient's standard error:

Input:			Test statistic:	Std. Error:	*p*-value:
a	-2.660	Sobel test:	0.11890283	0.11185604	0.90535234
b	-0.005	Aroian test:	0.10985408	0.1210697	0.9125251
s_a	1.103	Goodman test:	0.13063298	0.10181196	0.89606565
s_b	0.042	Reset all	Calculate		

Source: Data processed by researchers, 2025

Figure 4. Intervening Test of Variable Y for X1 to Z

Figure 4 illustrates that the t_{count} value is lower than the t_{table}. Given that the significance level exceeds 0.05 (0.905 > 0.05) and the Economic Growth variable has an effect of 0.005334, it can be concluded that H_7 is rejected. This indicates that Economic Growth cannot function as an intervening variable in the relationship between the Balance Fund and expenditure.

Discussion

The Effect of Local Revenue on Economic Growth

A standardized coefficient (beta) of 0.356, t_{count} value of 2.253, and a t_{table} of 2.008 with a significance level of 0.029 are the results of the hypothesis test since tcount is greater than ttable and the significance level is below 0.05. This indicates a positive relationship between local revenue and economic growth. The hypothesis that local revenue affects economic growth is accepted based on these considerations (H_1). The results of the study suggest that the level of economic growth increases with local revenue. This result supports the stewardship theory which states that local governments play a role as responsible resource managers by optimizing the use of local revenue for the benefit of the community and regional economic development. This theory highlights that the government acts as a steward in the public interest by using the resources efficiently and effectively (Eksandy et al., 2019). The results of this study are in line with Zulvan & Purbasari (2024) and Vianney (2024) but inversely proportional to the research of Fakhruddin et al (2024), Oktavia & Zulvia (2023) and Marseno & Mulyani (2020).

Effect of Balance Fund on Economic Growth

A standardized coefficient (beta) of -0.381, a t_{count} value of -2.411 and a t_{table} of 2.008 with a significance level of 0.020. Because the t_{count} is outside the range of -table to t_{table} and the significant value is smaller than 0.05. This means that the balance fund has a negative impact on economic growth. Based on this explanation, the hypothesis that the balance fund affects economic growth is accepted or H_2 is assumed. These results indicate that this negative effect occurs because the additional allocation of balance fund is achieved through high tax collection and thus inhibits the economic activity of the municipality. The results of this study

do not support the stewardship theory that requires municipalities to manage balance funds optimally for development. However, the high dependence on central transfers reduces the initiatives to increase PAD and productive budget allocations. The dominance of operating expenditure over capital expenditure also hampers economic growth, reflecting the lack of role of local governments as responsible administrators in financial management for long-term development. (Purba & Simandjorang, 2024). The results of this study are in line with the research of Rusyda et al (2024) but contradict the research of Oktavia & Zulvia (2023) and Hartadi (2022).

Effect of Local Revenue on Capital Expenditure

A standardized coefficient (beta) of 0.003, t_{count} value of 0.017, and a t_{table} value of 2.009 with a significance level of 0.986 are the findings of the hypothesis test. due to the significant value being more than 0.05 and $t_{count} < t_{table}$. Thus, capital investment is unaffected by local revenue. This justification leads to the rejection of either H_3 or the hypothesis that local revenue influences capital expenditure. According to the study's findings, more local revenue is utilized to pay for other expenses including operational and regular costs. Furthermore, each region's circumstances and circumstances determine how much the capital expenditure budget can be increased. The results of this study contradict the stewardship theory because, in this instance, the government, acting as a steward, uses local revenue more for operational expenses like paying employee salaries and meeting regular government requirements than for productive capital expenditures, making it less effective at promoting regional economic growth (Rohardian & Jaeni, 2022). The results of the study are in line with the research of Eksandy et al (2019), Zulkarnain & Haryati (2023) and Hadi & Kusuma (2023) but in contrast to the research of Ananda & Habiburrahman (2023) and Jayanti (2020).

Effect of Balanced Funds on Capital Expenditure

A standardized coefficient (beta) of 0.553, t_{count} of 3.704, and a t_{table} of 2.009 with a significance level of 0.001 are the findings of the hypothesis test. Since t_{count} is greater than t_{table} and the significance level is less than 0.05. Accordingly, equalization payments have a favorable impact on capital expenditures. This explanation supports the acceptance of H_4, the hypothesis that equalization funds influence capital expenditures. The study's findings suggest that the more money allocated to capital expenditures, the larger the equalization fund. The results of this study lend credence to the stewardship theory, which holds that an accountable government will optimally distribute equalization funds for capital projects like infrastructure development, healthcare facilities, and education in order to boost long-term regional economic productivity. This study is also supported by research from Ananda & Habiburrahman (2023) that the government (steward) is responsible for managing the special allocation fund, which is part of the balancing fund. This fund is allocated to specific sectors to support regional development and improve public services. The results of this study are in line with the research of Hadi & Kusuma (2023) and (Muttaqin et al., 2021) but contradict the research of Zulkarnain & Haryati (2023) and Saputra et al (2022).

Effect of Economic Growth on Capital Expenditure

A standardized coefficient (beta) of -0.014, t_{count} value of -0.108, and a t_{table} value of 2.009 with a significance level of 0.914 are the findings of the hypothesis test. The significant value is greater than 0.05, indicating that economic growth has no influence on capital expenditure, and the t_{count} falls within the range -table $< t_{count} \leq tt_{able}$. The hypothesis that capital spending is impacted by economic growth is rejected, or H_5, on the basis of this reasoning. The study's

findings suggest that a region's capital expenditure does not keep pace with its economic growth since budget funding for capital expenditures are declining. There are still a lot of undeveloped places, which can impede the local community's ability to prosper economically, due to unequal development. Because economic growth does not directly spur an increase in capital spending, the results of this study do not support stewardship theory. In this instance, stewardship in regional financial management has not been fully implemented properly. The results of this study are also supported by research by Waskito et al (2019) that the government (steward) in management has not been effective, because local governments use more of their regional expenditure for routine expenditure which is relatively less productive. The results of this study are also supported by the research of Alpin & Sirait (2024) and Gamela et al (2024) but contrasted with Salim (2019).

The Effect of Local Revenue on Expenditure with Economic Growth as an Intervening Variable

The results of the hypothesis test show that the t_{count} value of the Sobel test for the influence of local revenue on capital expenditure through economic growth is -0.118, while the t_{table} value is 2.008 with a significance level of 0.905. Since the t_{count} falls within the range of $-t_{table} \leq t_{count} \leq t_{table}$ and the significance value is greater than 0.05, economic growth cannot serve as an intervening variable in the relationship between local revenue and capital expenditure. Thus, the hypothesis stating that local revenue influences capital expenditure with economic growth as an intervening variable (H_6) is rejected. The study's findings indicate that operational expenditures take priority over capital expenditures due to the limited local revenue. In 2021, Jambi Province allocated IDR 1.500 trillion for personnel expenditures, while capital expenditures only amounted to IDR 449 billion. As a result, local governments rely more on transfer funds to finance capital projects. This dependence reduces the significance of local revenue's impact on capital expenditure through economic growth (DJPK, 2021). These findings are not consistent with the research conducted by Salim, (2019).

The Effect of Balancing Funds on Capital Expenditures with Economic Growth as the Intervening Variable

The results of the hypothesis test show that the t_{count} value of the Sobel test for the influence of equalization funds on capital expenditure through economic growth is 0.118, while the t_{table} value is 2.008 with a significance level of 0.905. Since the t_{count} falls within the range of $-t_{table} \leq t_{count} \leq t_{table}$ and the significance value is greater than 0.05, economic growth cannot serve as an intervening variable in the relationship between equalization funds and capital expenditure. Thus, the hypothesis stating that equalization funds influence capital expenditure with economic growth as an intervening variable (H_7) is rejected. The study's findings suggest that the Regency/City governments in Jambi Province allocate a larger portion of their equalization funds for operational expenditures rather than capital expenditures. The minimal allocation of equalization funds for capital expenditures results in a less significant impact on economic growth. These findings align with research by Adriani et al (2021) but contradict the research conducted by Salim, (2019).

CONCLUSION

In order to investigate the relationship between regional own-source revenue and equalization funds and capital expenditures, this study used economic growth as an intervening variable. The population under study consisted of regency/city governments in Jambi Province.

The findings of this study indicate that PAD and Balance Funds have an impact on economic growth, but only Balance Funds have an impact on capital expenditure; economic growth has no effect on capital expenditure. Additionally, when economic growth was used as an intervening variable, it was discovered that PAD had no effect on capital expenditure through economic growth, indicating that while PAD can boost economic growth, it does not always cause capital expenditures to rise. Future researchers should use a wider scope, such as a longer time span, add independent variables, or change variables that have been used but not studied in this study in order to get better results. The same is true for the Balance Fund, where the results show that the Balance Fund has no effect on Capital Expenditure through Economic Growth, indicating that although the Balance Fund can increase economic growth, its impact on capital expenditure is not significant.

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