The Effect of Integrity, Local Own-Source Revenue, and Intergovernmental Transfers on the Efficiency of Local Government Expenditure

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ABSTRACT

This study examines the efficiency of local government expenditure in Lampung Province and analyzes the effects of integrity, local own-source revenue (PAD), and intergovernmental transfers on expenditure efficiency. Using financial data from 15 regencies and municipalities during the 2021–2024 period, the study employs Data Envelopment Analysis (DEA) with Constant Returns to Scale (CRS) and Variable Returns to Scale (VRS) approaches to measure technical and scale efficiency, followed by multiple linear regression analysis to identify determinant factors. The DEA results reveal that only North Lampung Regency achieves full efficiency, while most local governments operate below the efficiency frontier, indicating substantial potential for improvement through better input utilization and scale adjustment. Regression results indicate that integrity does not have a significant effect on expenditure efficiency, suggesting that perceptual governance indicators alone are insufficient to explain efficiency variations. Local own-source revenue (PAD) shows a significant negative effect on expenditure efficiency, implying that higher fiscal capacity may encourage expenditure expansion that is not accompanied by proportional output gains. Meanwhile, intergovernmental transfers do not significantly affect efficiency due to their mandatory nature and limited flexibility. Overall, the findings highlight that expenditure efficiency is driven more by technical and structural aspects of budget management such as planning, control, and evaluation than by revenue size alone. Strengthening fiscal discipline and managerial capacity is therefore essential to improve local government spending efficiency.

INTRODUCTION

Local governments play a strategic role in delivering local development and public services to society. One of their core responsibilities is the efficient management of regional public finances to ensure that every unit of public

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funds generates maximum benefits. The efficiency of local government expenditure has therefore become a crucial indicator of public financial performance, as it reflects the extent to which public resources are utilized productively and optimally (Siregar & Wibowo, 2023). In practice, expenditure efficiency implies that government spending should produce substantial outputs and outcomes while employing the minimum possible inputs (Soraida, 2021). Within this framework, efficiency is not merely a matter of budget absorption but also concerns the quality and impact of spending decisions on socio-economic development.

In the context of regional autonomy, Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) and intergovernmental transfers (Dana Perimbangan) constitute vital financial resources that enable local governments to carry out their functions without excessive dependence on central government support. However, increased revenue alone does not guarantee effective development outcomes. Regions must also ensure that public spending is allocated and utilized efficiently. Empirical evidence shows that high budget realization does not always translate into satisfactory development outcomes or improved public services. For instance, in Makassar City, despite budget realization exceeding 99 percent, there was a significant decline in capital expenditure and a high dependence on local taxes, indicating that nominal performance did not fully reflect sound public financial management (Efektivitas Realisasi Anggaran Publik di Kota Makassar, 2025). This phenomenon underscores the importance of evaluating efficiency beyond mere absorption rates.

High expenditure realization should not automatically be interpreted as efficient spending. Putri and Darmayanti (2019) argue that realization rates exceeding 100 percent often signal inefficiencies, wastefulness, or unproductive use of funds. Consequently, regional expenditure management must prioritize productivity and value-for-money principles rather than focusing solely on budget absorption. This perspective aligns with the broader public financial management discourse, which emphasizes outcome-oriented budgeting and the efficient transformation of fiscal inputs into tangible public benefits.

Good governance principles serve as a fundamental basis for achieving sustainable expenditure efficiency. Transparency, accountability, and integrity play a decisive role in ensuring that budget allocations are not misused and that public funds are managed responsibly (Hutauruk & Yoyon, 2016). High expenditure efficiency reflects a government's capacity not merely to spend funds, but to do so with careful consideration of socio-economic impacts. In response to increasing demands for fiscal modernization, the central

government has promoted performance-based budgeting to ensure that each regional development program is supported by clear quantitative and qualitative indicators (Ministry of Finance of the Republic of Indonesia, 2023). As such, expenditure efficiency represents an integration of technical budgeting processes and development outcome orientation.

Lampung Province exhibits diverse economic characteristics and faces geographical challenges as a strategic buffer between Java and Sumatra. Although recent years have shown relatively high budget absorption rates, questions remain regarding the effectiveness and efficiency of expenditure utilization. Reports from the Audit Board of Indonesia (BPK) and the Financial and Development Supervisory Agency (BPKP) of Lampung Province (2023) reveal that total expenditure realization reached 99.17 percent of the allocated budget, with personnel expenditure absorbing the majority of routine allocations. This situation suggests that while quantitative targets are achieved, the qualitative value and productivity of public spending require further examination. Local studies indicate structural imbalances in expenditure composition, where dominant personnel spending reduces capital expenditure and ultimately constrains expenditure efficiency (Ameliya, Warisi, & Khoirina, 2024; Saputra & Khoirunurrofik, 2022).

The issue of integrity in budget management remains a significant concern in Lampung Province. Data from the Integrity Assessment Survey (Survei Penilaian Integritas/SPI) conducted by the Corruption Eradication Commission (KPK) show that several districts and municipalities in Lampung recorded lower integrity scores compared to other regions in Indonesia. Most local governments fall within the medium integrity category, with scores ranging from 65 to 74, while others remain in the low category with scores below 65. These conditions indicate weaknesses in internal control systems, ethical enforcement, and transparency. Fluctuations in SPI scores from 2021 to 2024 reflect inconsistencies in implementing integrity policies and internal supervision mechanisms (KPK, 2023). Low integrity levels increase the risk of budget misallocation, inefficiency, and non-productive spending.

In addition to governance challenges, Lampung's fiscal capacity remains constrained. Many districts and municipalities rely heavily on central government transfers due to relatively low PAD contributions. This dependence reduces fiscal flexibility and weakens incentives to improve spending efficiency. Although Lampung recorded high expenditure realization in 2023—nearly 100 percent across personnel, goods, and capital expenditures—the relatively small proportion of capital spending indicates limited fiscal space for productive investment (BPKP Lampung Province, 2023).

Thus, expenditure efficiency must be assessed not only by realization rates but also by the benefits generated for the community.

PAD serves as a critical indicator of fiscal independence and plays a strategic role in enhancing expenditure efficiency. Higher PAD contributions provide greater flexibility for local governments to allocate spending according to development priorities (Kusnandar & Siswantoro, 2020). Empirical studies demonstrate that regions with stronger PAD capacity tend to manage expenditures more efficiently, provided that sound financial management and integrity are upheld (Ramadhani & Widodo, 2022; Marfiana & Kurniasih, 2021). Conversely, heavy reliance on Dana Perimbangan may constrain efficiency due to the top-down nature of transfer allocations, although transparent and accountable management can mitigate these limitations (Putri & Wahyudi, 2021; Siregar & Wibowo, 2023).

Integrity remains a foundational determinant of expenditure efficiency. High-integrity public officials are more likely to make prudent financial decisions, minimize corruption risks, and allocate budgets toward productive programs (Taufiq & Rahman, 2022). In Lampung Province, integrity challenges—as reflected in SPI scores and audit findings—underscore the importance of strengthening internal control systems, transparency, and ethical enforcement (Sudirman & Fadhilah, 2021). Despite extensive literature on expenditure efficiency, empirical studies integrating PAD, Dana Perimbangan, and integrity—particularly using advanced efficiency measurement approaches such as Data Envelopment Analysis—remain limited in the Lampung context (Hasan & Mahi, 2021; Siregar & Wibowo, 2023). Therefore, this study seeks to fill this gap by providing a comprehensive empirical analysis to inform more effective and context-sensitive regional fiscal policies.

RESEARCH METHODE
Population and Sample

According to Kothari (2015), a population refers to a defined set of objects or subjects with specific characteristics established by the researcher as the basis for analysis and inference. The population of this study comprises 13 regencies and 2 municipalities in Lampung Province. The sample is selected using a purposive sampling technique, as the analysis is limited to regencies and municipalities included in the Integrity Assessment Survey (Survei Penilaian Integritas/SPI) conducted by the Corruption Eradication Commission (KPK). The sampling criteria include: (1) local governments that participated as respondents in the SPI; (2) SPI data that have undergone verification and have been officially declared valid by the authorized institution; and (3) the

availability of published Local Government Financial Statements (LKPD) for the 2021–2024 period. This approach ensures sample representativeness, data completeness, and alignment with the research objectives.

Operational Definitions of Variables

Operational definitions clarify the meaning of research variables by specifying their conceptual scope, measurement procedures, and observable indicators in accordance with empirical conditions. Such definitions are essential to ensure consistency between theory and empirical analysis. According to Kothari (2015), a variable represents any attribute or phenomenon determined by the researcher to be examined so that relevant information can be collected and used as a basis for drawing conclusions. In this study, variable operationalization is conducted by identifying the type of variable, relevant indicators, and appropriate measurement scales. The research analyzes integrity (X_1), local own-source revenue (Pendapatan Asli Daerah/PAD) (X_2), and intergovernmental transfers (Dana Perimbangan/DP) (X_3) as independent variables, while local government expenditure efficiency (Y) serves as the dependent variable. Conceptually, integrity is expected to positively influence expenditure efficiency, as higher integrity reflects transparent, accountable, and ethical public financial management consistent with good governance principles (Rahayu & Khoirunurrofik, 2024; Santoso & Sulisnaningrum, 2024).

PAD is regarded as a primary source of regional financing that may enhance fiscal efficiency when managed productively and oriented toward improving financial performance (Hariani & Widyawati, 2020; Wibisono, Syprayitno, & Nur, 2024; Amua, Niswatin, & Yusuf, 2023). Conversely, intergovernmental transfers are intended to support fiscal equalization and efficient budget utilization; however, excessive dependence on transfer funds may reduce regional efficiency and fiscal independence (Wang & Liu, 2017; Chusnah, 2014; Khoirunisa & Sulaeman, 2023). Integrity (X_1) is measured using the Integrity Management Index within the Integrity Assessment Survey (SPI) published by the KPK, with scores ranging from 1 to 100 and encompassing transparency, task integrity, procurement management, human resource management, budget management, external intervention, and anti-corruption socialization. Expenditure efficiency (Y) is measured using technical efficiency scores derived from Data Envelopment Analysis (DEA) on a scale of 0–1, employing expenditure realization as inputs and development indicators — Human Development Index, economic growth, and poverty rate — as outputs. PAD (X_2) is measured by realized PAD values in the regional budget, while Dana Perimbangan (X_3) is measured by the total realization of General

Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue-Sharing Funds (DBH).

Research Data Types and Sources, Data Collection Techniques

Referring to Sugiyono (2020), this study employs secondary data as its primary data source. Secondary data are defined as data obtained indirectly through intermediaries, published documents, or institutional records rather than direct observation or surveys (Kothari, 2015). The secondary data used in this research are derived from official government institutions and comprise: (1) Local Government Financial Statements (Laporan Keuangan Pemerintah Daerah/LKPD) of regencies and municipalities in Lampung Province for the period 2021–2024, published by the Audit Board of the Republic of Indonesia (BPK) and the Financial and Development Supervisory Agency (BPKP); (2) Integrity Assessment Survey (Survei Penilaian Integritas/SPI) data issued by the Corruption Eradication Commission (KPK); and (3) data on Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) and Intergovernmental Transfers (Dana Perimbangan/DP) obtained from the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia.

Data collection in this study is conducted through documentation and literature review techniques, which involve systematically gathering information from available records and scholarly sources (Kothari, 2015). The documentation method is used to collect secondary data relevant to the research variables, including SPI scores, realized PAD values, total intergovernmental transfers, and indicators of local government expenditure efficiency. These data are sourced from official publications of the KPK, the Directorate General of Fiscal Balance (DJPK), the Central Statistics Agency (BPS), and LKPD reports, ensuring data accuracy and reliability. Additionally, a literature review is undertaken by examining books, peer-reviewed journals, prior empirical studies, statutory regulations, and other academic documents related to integrity, PAD, intergovernmental transfers, and expenditure efficiency. This process aims to strengthen the theoretical foundation and contextual understanding of the research. All collected data are subsequently compiled, verified, and processed to support quantitative analysis using Data Envelopment Analysis (DEA) and multiple linear regression techniques.

Data Analysis Techniques

In general, efficiency measurement techniques can be classified into parametric approaches, which rely on regression-based estimators, and nonparametric approaches, which employ mathematical programming estimators. Both approaches aim to produce objective efficiency measures that reflect the performance of decision-making units (DMUs). In this study, the

selection of analytical methods is aligned with data characteristics and research objectives. Initial data processing and organization are conducted to ensure systematic interpretation and accurate analysis, as the quality of inference depends heavily on proper data handling (Irfan, 2022). Accordingly, this study applies two complementary analytical approaches. First, nonparametric Data Envelopment Analysis (DEA) is employed using the DEAP software to measure local government expenditure efficiency. Second, parametric multiple linear regression analysis is applied to examine the influence of integrity, local own-source revenue (PAD), and intergovernmental transfers (Dana Perimbangan) on efficiency, both simultaneously and partially. Descriptive statistical analysis is used to summarize data characteristics through measures of central tendency and dispersion (Kothari, 2015), followed by classical assumption tests—normality, multicollinearity, heteroskedasticity, and autocorrelation—to ensure the validity of regression estimates (Ghozali, 2018).

DEA is utilized to construct a production frontier that identifies efficient and inefficient DMUs, with efficiency scores ranging from zero to one (Hadad et al., 2003; Liu & Luo, 2019). Both Constant Return to Scale (CRS) and Variable Return to Scale (VRS) models are applied to capture overall and technical efficiency, respectively (Charnes et al., 1978; Banker et al., 1984; Utami et al., 2021). DEA is preferred due to its benchmarking capability and flexibility in public sector performance evaluation (Makmun, 2002; Kantabutra, 2009). Furthermore, multiple linear regression analysis is used to assess the effect of the Budget Management Index (IPA), PAD, and Dana Perimbangan on expenditure efficiency, following Hasan and Mahi (2021). Hypothesis testing is conducted using the coefficient of determination (R^2), t-tests, and F-tests to evaluate explanatory power and statistical significance (Gujarati & Porter, 2009; Field, 2013).

RESULT AND DISCUSSION
Descriptive Statistics

Based on 60 observations, integrity exhibits moderate-to-high levels with low dispersion, indicating relatively consistent governance conditions across regions. Expenditure efficiency shows a high mean with limited variability, suggesting generally efficient budget utilization among local governments. In contrast, intergovernmental transfers and PAD display wide ranges and large standard deviations, reflecting substantial disparities in fiscal capacity and transfer dependence across districts and cities. Overall, the descriptive statistics indicate homogeneity in integrity and efficiency, while fiscal variables

demonstrate pronounced heterogeneity that may influence subsequent explanatory analyses.

Table 1.
Descriptive Statistics Results

Variable	N	Min	Max	Mean	Std. Deviation
Integrity (X1)	60	51.99	79.16	69.59	4.97
Expenditure Efficiency (Y)	60	70.83	99.86	90.80	5.57
Intergovernmental Transfers (X3)	60	2.0E+11	3.0E+12	1.32E+12	5.118E+11
Local Own-Source Revenue (PAD/X2)	60	5.26E+10	1.0E+12	2.20E+11	2.620E+11

Results of Data Analysis Requirements

Based on the results of the data analysis requirement tests and the DEA analysis, it can be concluded that the research model generally satisfies most classical regression assumptions. The normality test shows differing results between the conventional Kolmogorov–Smirnov approach and the Monte Carlo method; however, the Monte Carlo results indicate that the residuals can be considered normally distributed, allowing the regression analysis to proceed. The multicollinearity test confirms the absence of high correlations among the independent variables, while the heteroskedasticity test indicates that only intergovernmental transfers are at the significance threshold, whereas integrity and local own-source revenue are not statistically significant. Nevertheless, the Durbin–Watson test reveals the presence of positive autocorrelation, which should be considered when interpreting the regression results. Furthermore, the Data Envelopment Analysis (DEA) shows that, on average, regional efficiency has not yet reached an optimal level, particularly under the CRS approach, and that inefficiency is mainly driven by scale effects rather than technical inefficiency. Only North Lampung Regency achieves full efficiency under CRS, VRS, and scale efficiency, reflecting optimal management of regional expenditure. Overall, these findings emphasize that expenditure efficiency is not solely determined by revenue capacity or fiscal transfers, but is strongly influenced by operational scale, planning quality, governance, and effective budgetary control.

Results of Regression Analysis

The multiple linear regression results indicate that integrity (X_1), local own-source revenue/PAD (X_2), and intergovernmental transfers (X_3) jointly explain variations in local government expenditure efficiency (Y).

Table 2.
Results of Regression Analysis

Model	Unstandardized B	Std. Error	Standardized Beta	t	Sig.	Hypothesis
Constant	82.330	9.829	–	8.376	0.000	–
Integrity (X_1)	0.157	0.129	0.140	1.213	0.230	Not supported
Local Own-Source Revenue / PAD (X_2)	−1.294E−11	0.000	−0.604	−5.462	0.000	Supported
Intergovernmental Transfers (X_3)	3.151E−13	0.000	0.029	0.229	0.812	Not supported

The estimated regression equation is: $Y = 82.330 + 0.157X_1 − 1.294×10^{−11}X_2 + 3.151×10^{−13}X_3 + e$. Partial testing shows that only PAD has a statistically significant effect on expenditure efficiency, with a negative coefficient (t = −5.462; p < 0.001). This suggests that higher PAD is associated with lower expenditure efficiency, implying that increased revenue does not automatically translate into productive or efficient spending, possibly due to suboptimal allocation priorities or inefficiencies in budget management.

These findings align with the argument that fiscal performance depends not merely on revenue magnitude but on expenditure quality and governance. While Padang and Suprapto (2021) find that PAD and intergovernmental transfers positively affect local financial performance, other studies report heterogeneous results. Yuliawati, Zuliyana, and Rani (2023) show that PAD effects vary depending on budget structure and control variables, while Mukaiyaroh and Anik (2024) emphasize the role of government size and contextual factors. Similarly, Rahman and Altin (2024) conclude that the impact of PAD on regional performance is mixed when additional explanatory variables are included.

Coefficient of Determination (R2) Test

The Model Summary indicates a moderate positive relationship between the independent variables (integrity, intergovernmental transfers, and local own-source revenue/PAD) and local government expenditure efficiency, as reflected by an R value of 0.628.

Table 3.
Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.628	0.394	0.361	4.455

The coefficient of determination (R²) of 0.394 implies that 39.4% of the variation in expenditure efficiency is explained by the model, while 60.6% is attributable to other factors outside the model. The adjusted R² of 0.361 confirms adequate explanatory power after controlling for model complexity. The standard error of 4.455 suggests a moderate level of prediction accuracy, indicating reasonable model performance.

t-Test (Partial)

The partial t-test results in Table below indicate that the regression constant is statistically significant (t = 8.376; p = 0.000), implying a baseline effect when all independent variables are held constant.

Table 4.
t-test Result

Variable	B	Std. Error	Beta	t	Sig.
Constant	82.330	9.829	–	8.376	0.000
Integrity (X1)	0.157	0.129	0.140	1.213	0.230
PAD (X2)	–1.294E–11	0.000	0.604	–5.462	0.000
Intergovernmental Transfers (X3)	3.151E–13	0.000	0.029	0.229	0.812

Integrity (X1) shows a positive but statistically insignificant effect (t = 1.213; p = 0.230), suggesting that variations in integrity do not significantly influence the dependent variable. Local Own-Source Revenue (PAD/X2) has a significant negative effect (t = –5.462; p = 0.000), indicating that higher PAD is associated with a decline in the dependent variable. Meanwhile, intergovernmental transfers (Dana Perimbangan/X3) are statistically insignificant (t = 0.229; p = 0.812), implying no direct effect. Overall, only PAD significantly contributes to the model, underscoring the importance of effective local revenue management.

The Effect of Integrity on Regional Spending Efficiency in Lampung Province

The results indicate that integrity does not have a statistically significant effect on local government expenditure efficiency in Lampung Province during 2021–2024, as reflected by a significance value of 0.230 (p > 0.05). This finding leads to the rejection of the hypothesis proposing a positive relationship

between integrity and spending efficiency. Consistent with prior studies, the relationship between integrity-related governance indicators and efficiency appears non-linear and indirect (Rahayu & Khoirunurrofik, 2022; Wardhani et al., 2017). Integrity tends to influence efficiency only when supported by effective internal controls and competent human resources (Nurmalasari et al., 2025). Consequently, efficiency outcomes are more strongly shaped by structural and managerial factors, such as organizational scale, expenditure composition, planning quality, and fiscal control mechanisms.

DEA results further reveal heterogeneity in efficiency levels across local governments, with average efficiency scores of 72.7% under CRS and 90.5% under VRS assumptions, indicating adequate technical capacity but scale-related and managerial constraints. The case of North Lampung illustrates that full technical efficiency can coexist with relatively low integrity scores, as efficiency measures input–output optimization, whereas integrity reflects governance quality and public perception (Budiharjo et al., 2023; Afonso & Fernandes, 2008). Prior evidence similarly suggests that governance and integrity mainly affect expenditure quality rather than short-term technical efficiency (Gupta et al., 2002; Hauner & Kyobe, 2010; Ahmad & Martinez-Vazquez, 2015).

The Effect of Locally-Owned Revenue (PAD) on Regional Spending Efficiency in Lampung Province

The partial test results indicate that Local Own-Source Revenue (PAD) has a statistically significant negative effect on local government expenditure efficiency in Lampung Province during 2021–2024, as shown by a significance value of 0.000 ($p < 0.05$). This finding suggests that higher PAD levels may reduce spending efficiency, as increased fiscal capacity does not necessarily correspond with effective budget management and may encourage unproductive expenditure expansion (Afonso, 2024). Fiscal decentralization can also create soft budget constraints and moral hazard when rising revenues are not accompanied by strong internal controls and governance mechanisms (Dick-Sagoe et al., 2025). International evidence similarly emphasizes that enhanced revenue capacity must be supported by managerial capability, transparency, and accountability to avoid inefficient allocation (IMF, 2025). Institutional quality and administrative capacity further condition the ability to translate PAD growth into efficient public outputs (Zein et al., 2024).

The Effect of Balancing Fund Amounts on Regional Spending Efficiency in Lampung Province

The findings indicate that intergovernmental transfers do not have a statistically significant effect on the expenditure efficiency of local governments

in Lampung Province during 2021–2024, as reflected by a significance value of 0.812 (p > 0.05). This result implies that higher transfer allocations from the central government do not automatically enhance spending efficiency, which is more strongly influenced by internal fiscal management capacity, planning quality, and budgetary oversight (Rahayu & Khoirunurrofik, 2021). High fiscal dependence, weak internal control systems, and suboptimal governance practices contribute to inefficient fund utilization (Engkus et al., 2024; Novita Sari et al., 2025). Institutional capacity disparities across regions further explain this outcome (Iskandar, 2022). Consequently, improving governance quality, accountability, and fiscal management is essential for achieving efficiency and supporting sustainable fiscal decentralization (Darmastuti et al., 2022; Syukri et al., 2025).

CONCLUSION

Based on the data analysis and discussion, this study concludes that the efficiency of local government expenditure in Lampung Province remains suboptimal. The Data Envelopment Analysis (DEA) results indicate that among all sampled districts and cities, only North Lampung Regency achieved full efficiency, with CRS and VRS technical efficiency scores of 1.00 and a scale efficiency of 1.00. This finding implies that most local governments have not yet managed regional expenditure efficiently and still possess substantial potential to improve input utilization and adjust their operational scale. Regression analysis further shows that integrity does not have a statistically significant effect on expenditure efficiency, leading to the rejection of the proposed hypothesis. This suggests that perceptual measures of integrity alone are insufficient to explain variations in expenditure efficiency across local governments. In contrast, local own-source revenue (PAD) has a significant negative effect on expenditure efficiency, indicating that higher PAD tends to be associated with lower efficiency, likely due to uncontrolled expenditure expansion not matched by proportional output improvements. Meanwhile, intergovernmental transfers (balancing funds) do not significantly affect expenditure efficiency, reflecting their mandatory nature and limited flexibility in use.

Overall, the findings indicate that although the structure of regional revenue plays an important role, its impact on expenditure efficiency is not necessarily positive. Expenditure efficiency is more strongly influenced by technical and structural aspects of budget management, including planning, control, and evaluation mechanisms, rather than by revenue size or perceptual governance indicators alone. Therefore, improving expenditure efficiency

requires strengthening budget management quality to ensure that increases in PAD and central transfers do not generate inefficiency. For policy implications, local governments are encouraged to enhance managerial capacity, budget planning, and internal control systems, particularly in regions with high PAD. The central government should design more needs-based transfer schemes and provide technical assistance to improve local financial management capacity. Future research is advised to incorporate additional explanatory variables, longer observation periods, and broader regional coverage. This study is limited by its focus on 15 local governments in Lampung Province over the 2021–2024 period, which may not fully capture long-term dynamics or allow generalization to other regions.

ACKNOWLEDGEMENT

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