Government Financial Performance Provincial Regions in Indonesia: The Effect of Capital Expenditure, Remaining Budget Financing, and Prosperity Rate

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Abstract

This study aims to investigate the impact of capital spending, remaining budget financing and prosperity level on the financial performance of Provincial Governments in Indonesia. This particular research style serves is a quantitative research using secondary data obtained from the official website of bpk.go.id. The population in this study is 38 provinces in Indonesia with a total sample of 34. The sampling method in this study uses Nonprobability Sampling with purposive sampling technique. The hypothesis test of this study used multiple linear regression analysis with the help of softwarwe EViews 12. The results of this study show that partially capital expenditure and remaining budget financing have a negative and significant effect on financial performance. Furthermore, the prosperity level has no effect on financial performance. the simultaneous test stated that capital expenditure, remaining budget financing, and prosperity level together had a significant effect on the financial performance of Provincial Governments in Indonesia.

INTRODUCTION

Following the enactment of Law No. 23 in 2014, the central government implements decentralization through regional autonomy. The objective of the regional autonomy policy is for local governments to promote regional development by utilizing the potentials and resources at hand, in addition to independently improving public services. The financial results achieved by local administrations are crucial in the execution of decentralization and regional autonomy, encompassing the administration of the regional revenue and expenditure budget and accountability for its utilization (Putri & Ratnawati, 2023).

As reported in the financial statistics of provincial governments in Indonesia, many provinces still show a high dependence on local revenue from central transfer funds compared to Regional Original Revenue (bps.go.id, December 21, 2023). The level of financial independence of provinces in Indonesia from 2021 to 2023 The original income of provinces such as DKI Jakarta, West Java, East Java, and Banten shows the highest ratio of independence, even exceeding 200% of the original income of the region in 2023, indicating its extraordinary ability to finance its government without high dependence on central funds. In contrast, provinces in eastern Indonesia such as Papua, West Papua, South Papua, and Mountainous Papua show very low levels of self-sufficiency, below 20%, showing considerable economic dependence on the central government. High self-reliance is prevalent on the island of Java and parts of Sumatra, while the eastern region still faces serious challenges in strengthening its financial capacity.

Indonesia still experiences inequality of independence between its provinces. The inequality of the independence of the original income of the provinces in Indonesia made the author focus on the original income of the regions of the independence ratio and was interested in seeing what factors can affect the independence of the existing original income of the provinces in Indonesia. The self-reliance ratio reflects the level of dependence of a region on external funds (Halim, 2012). The independence ratio was selected in this study as an indicator of the government's financial performance, as it illustrates local governments' capacity to fund government operations,

development projects, and community services from their own-source revenues as an essential regional income source (Halim, 2012). The higher this ratio, the higher the financial independence of the region (Mahmudi, 2016). Numerous previous studies have recognized diverse factors potentially impacting the financial performance of local governments., including capital expenditure, remaining budget financing and prosperity level (Ratnasari & Meirini, 2023), (Aulia & Rahmawaty, 2020) and (Putri & Ratnawati, 2023).

Capital expenditure is intended to improve public facilities and services regulated by Article 55 of Government Regulation Number 12 of 2019. Investments in capital spending have a constructive nature, providing advantages over multiple years, thereby increasing the chances to fully utilize regional revenue potential, which will boost the original regional income and improve the financial outcomes of the area (Novita & Arza, 2024). With capital expenditure, local governments can attract investors by providing the infrastructure and facilities needed to create new jobs (Ardelia et al., 2022). Capital expenditure also supports sustainable regional development by enhancing the quality and accessibility of essential public infrastructure, which in turn fosters long-term economic growth and social welfare.

The financing of the Remaining Surplus Budget is outlined in Minister of Finance Regulation No. 147/PMK.05/2021 regarding the Management of Surplus Budget Balances. Budget Overflow providing benefits within a period of one year established under Law Number 23 of 2014 regarding Regional Government. Number Budget Overflow in the Regional Revenue and Expenditure Budget should show a zero, which indicates that the financing available in a region can be used to cover budget shortfalls, this is so that the budget can be used optimally, so that financial performance can increase (Djuniar & Zuraida, 2018). Effective management of the Remaining Surplus Budget ensures fiscal discipline and transparency, enabling local governments to allocate resources efficiently and support priority programs that drive regional development.

The level of prosperity of a region reflects its capacity to meet the various needs of its region which can be assessed through growth regional original revenue (Andani et al., 2019; Alam et al., 2024). The capacity of local governments to enhance Regional Original Revenue It is crucial to enlarge the portion regional original revenue in the local government budget for revenues and expenditures. With increasing regional original revenue, regional reliance on financial assistance from the central government will diminish, which will ultimately improve the quality of regional financial performance (Sanjaya et al., 2021; Ratnasari & Meirini, 2023). Moreover, strengthening regional original revenue encourages greater fiscal independence and empowers local governments to prioritize and fund development initiatives tailored to the specific needs of their communities.

Previous research showed that the original income variable of each study showed mixed results, which made the author interested in reviewing the variables studied. The update of this study contains the original regional income adjusted for independent variables, which as a whole is used in this study is capital expenditure, the remaining budget financing, and the level of prosperity to the regional financial performance. Moreover, disparities exist in this study concerning the local original income of the subject region and the specific research duration, namely using data objects that are expanded into data from 38 provinces in Indonesia for the 2021-2023 period and using Econometric Views (EViews) 12 as a tool to process data.

Based on the background that has been described, the researcher formulates the main problems as follows:

1. Does capital expenditure affect regional financial performance?
2. Does the Remaining Budget Financing Increase affect the financial performance of the regions?
3. Does the level of prosperity affect the financial performance of the region?
4. Does capital expenditure, the Remaining Budget Financing, and the level of prosperity simultaneously affect the financial performance of the region?

METHODS

The research design applied in this study is the application of quantitative methods. Research methods (Sugiyono, 2019:110) is a scientific approach used to collect data with the aim of finding, proven, and developing and having certain uses, namely to understand, solve, and anticipate problems. This research was conducted in 38 Provincial Regional Governments in Indonesia, namely Provinces for the 2021-2023 period based on data obtained by the Information and Documentation Management Officer (PPID) from the official E-PPID website of the Central Audit Agency of the Republic of Indonesia (BPK RI), namely https://e- ppid.bpk.go.id/. The period of this research extended from March to July of 2025.

This research focuses on the entire population of local governments within Indonesia, totaling 38 provinces whose financial statements are the object of audit by BPK RI for regional original revenue in 2021-2023. These three years were chosen because they are the most recent audit years for which data has been available and can be researched. Sample (Sci. 2019:127-134) is a part of the number or population that will be analyzed and the characteristics possessed by the population. The research area's original income sample was extracted using purposive sampling, a non-probability technique that selects samples based on specific criteria. The researcher used 34 provinces in Indonesia within a period of 3 (three) years, namely the 2021-2023 period.

This study utilizes quantitative data derived from the Audit Report on the Financial Statements regarding the Original Regional Revenue of Provincial Governments in Indonesia. Directly obtained from Indonesia's Provincial Budget Realization Report, secondary data comprised the data source for this study.

Descriptive Statistical Analysis (Sugiyono, 2019:213) is a technique employed to process data by elaborating on or characterizing the gathered information, without formulating universal conclusions or generalizing. Of the 3 (three) model estimation methods: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki & Prawoto, 2016), the selection of the model is statistically necessary to determine which one to use in the test to select the panel data. There are three tests in choosing a model to process panel data, namely Chow Test, Hausman Test, and Lagrange Multiplier Test (Caraka & Yasin, 2017:10-13).

Linear models can be said to be good if they meet a set of statistical assumptions known as the classical assumption of opinion (Ghozali, 2018:107). The classical assumption test consists of a normality test, a multicoloniality test, a heteroscedasticity test, and an autocorrelation test. In multiple linear regression, the fulfillment of these assumptions is necessary to produce an unbiased and statistically valid coefficient estimate. The analysis technique used in this study is multiple linear regression analysis, which is a test to measure how much influence the independent variables of Capital Expenditure (X_1), Remaining Budget Financing (X_2), and Prosperity Level (X_3) on Financial Performance (Y). The formula of Multiple Linear Regression Analysis is:

$KKPD = \alpha + \beta 1BM + \beta 2SI + \beta 3TK + e$

Information:
KKPD: Financial Performance of Local Governments
BM: Capital Expenditure
S: Remaining Budget Financing
TK: Prosperity Rate
α: Konstanta
e: *Error*
β1, β2, β3: Coefficients Regresi

Hypothesis Testing

Hypothesis testing is employed to assess how much the independent variables impact the dependent variables, either individually or collectively (Ghozali, 2018:98):

a. Coefficient of Determination Test (R^2)

A model's capability to explain dependent variable variations is gauged by the coefficient of

determination, which spans from 0 to 1. A low Adjusted R Square value indicates that independent variables have a very restricted capacity to clarify the dependent variable.

b. T-Test (Persian Test)
Each independent variable's unique impact on the dependent variable is revealed by the t-test. If $t_{statistics} > t_{table}$ or probability value exceeding 0.05 then H_a is accepted and H_0 is rejected, it yields a significant effect on the dependent variable, and the contrary is equally valid.

c. F test (Simultaneous test)
Namely to assess how big the impact of all independent variables (Capital Expenditure, Remaining Budget Financing, Prosperity Level) is on the dependent variable (Financial Performance). If $F_{statistics} > F_{table}$ or probability value exceeding 0.05 then H_a is accepted and H_0 is rejected, it yields a significant effect on the dependent variable, and the contrary is equally valid.

RESULTS AND DISCUSSION

The results of descriptive statistics are obtained which are presented with the original income of the region Table 2.

Table 2. Descriptive Statistical Testing Results

	X_1_BM	X_2_SI	X_3_TK	Y_KKPD
Mean	0.151173	0.133724	0.124908	0.876569
Median	0.168773	-0.139853	0.122514	0.685000
Maximum	1.537100	3.409208	0.540997	2.780000
Minimum	-0.756671	-0.924748	-0.653794	0.070000
Std. Dev.	0.395479	0.831179	0.138686	0.632713
Skewness	0.488450	1.372150	-1.122026	1.177294
Kurtosis	3.772287	5.171346	12.00715	3.657797
Jarque-Bera	6.590738	52.04518	366.1995	25.40132
Probability	0.037054	0.000000	0.000000	0.000003
Sum	15.41962	13.63985	12.74066	89.41000
Sum Sq. Dev.	15.79677	69.77672	1.942628	40.43290
Observations	102	102	102	102

Source: data processed with Eviews 12 (2025)

Descriptive statistics intend to provide a descriptive overview of the data, pinpointing the mean, median, maximum, minimum values, and standard deviation of each variable.

Panel Data Regression Model Selection

The results of the Chow Test were obtained which presented the original income of the region Table 3:

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.416173	(33,65)	0.0000
Cross-section Chi-square	238.370154	33	0.0000

Source: data processed with Eviews 12 (2025)

In Table 3, a statistical value was obtained which was 22.750429 with a probability value of Chi-Square 0.0000. Thus, given the results above, the Chi-Square probability value of 0.0000 does not exceed 0.05, confirming FEM as the chosen model. The results of the Hausman Test were obtained which presented the original income of the region Table 4.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.286027	3	0.0103

Source: data processed with Eviews 12 (2025)

Chi Square's Statistical value is 11.286027 and its probability value of 0.0103 indicates the probability results are does not exceed 0.05. leading to the selection of the FEM in this test. The Lagrange Multiplier test was not conducted since the Chow and Hausman tests consistently identified FEM as the appropriate model for original income. This particular test is designed for comparing CEM and REM to find the superior fit.

Classic Assumption Test

The feasibility of the regression model is determined through classical assumption testing, where the model must meet the classical assumptions so that the estimation results do not contain bias or meet the BLUE (Best Linear Unbiased Estimator) criteria. In the study, *Fixed effect* or the OLS method as the best model, then not all classical assumption tests should be performed only multicollinearity tests and heteroscedasticity tests are required, while normality tests and autocorrelation tests do not need to be done (Basuki & Prawoto, 2017). The multicollinearity test aims to ascertain the presence of a significant relationship among independent variables. Table 5 displays the outcomes of this test:

Table 5. Multicollinearity Test Results

	X_1	X_2	X_3
X_1_BM	1.000000	-0.075657	0.129374
X_2_SI	-0.075657	1.000000	0.366378
X_3_TK	0.129374	0.366378	1.000000

Source: data processed with Eviews 12 (2025)

It is known that all correlation values of the data obtained does not exceed 0.85. Therefore, the problem of multicollinearity does not exist. The heteroscedasticity test examines whether the regression model exhibits varying residual income variances from the original area across different observations. Table 6 contains the test results:

Table 6. Heteroskedesticity Test Results

Heteroskedasticity Test: White		
Null hypothesis: Homoskedasticity		
F-statistic	1.200830 Prob. F (9.92)	0.3041
Obs*R-squared	10.72259 Prob. Chi-Square (9)	0.2952
Scaled explained SS	13.05857 Prob. Chi-Square (9)	0.1600

Source: data processed with Eviews 12 (2025)

The heteroscedasticity test yielded a Prob.Chi-Square result of 0.2952, which exceeds 0.05, indicating no occurrence of heteroscedasticity.

Multiple Linear Regression Analysis

The outcomes of the multiple linear regression analysis, specifically regarding the regional original income, are presented in Table 7.

Table 7. Multiple linear regression analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.892180	0.034976	25.50810	0.0000
X_1_BM	-0.210565	0.069580	-3.026250	0.0035
X_2_SI	-0.185401	0.034893	-5.313476	0.0000
X_3_TK	0.328348	0.205201	1.600133	0.1144

Source: data processed with Eviews 12 (2025)

$$KKPD = 0.892180 – 0.210565\ BM – 0.185401SI+0.328348\ TK+e$$

A constant value of 0.892180 is derived from the regression equation, representing financial performance when other variables are held constant. Capital Expenditure, Remaining Budget Financing had a negative influence on financial performance, decreasing by 0.210565 and

0, respectively.185401 per unit. On the other hand, the Prosperity Rate had a positive influence, increasing financial performance by 0.328348 per unit increase.

Hypothesis Test

The determination coefficient (R^2) of the original income of the region is primarily conducted to gauge how well independent variables can account for variations in dependent variables. The results of the determination coefficient test presented the original income of the region Table 8:

Table 8. Test Results of Determination Coefficient (R^2)

Cross-section fixed (dummy variables)			
Root MSE	0.192530	R-squared	0.906489
Mean dependent var	0.876569	Adjusted R-squared	0.854699
S.D. dependent var	0.632713	S.E. of regression	0.241180
Akaike info criterion	0.268357	Sum squared resid	3.780902
Schwarz criterion	1.220553	Log likelihood	23.31379
Hannan-Quinn criter.	0.653934	F-statistic	17.50302
Durbin-Watson stat	2.677300	Prob(F-statistic)	0.000000

Source: data processed with Eviews 12 (2025)

The R-squared value of 0.906489 shows that the regression model is able to explain 90.64% of the variation of dependent variables through independent variables. Adjusted R-square from 0. 854699 affirmed the strength of the model after adjustment, where 85.4% of the dependent variation was explained by the model, while the remaining 14.6% was influenced by external factors. The regression standard error of 0.241180 reflects the average prediction deviation.

The t-test is performed to determine the magnitude of the influence of independent variables on the dependent variable partially. The results of the partial significance test are presented with the original income of the region Table 9.

Table 9. Partial Significance Test Results (t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.892180	0.034976	25.50810	0.0000
X_1_BM	-0.210565	0.069580	-3.026250	0.0035
X_2_SI	-0.185401	0.034893	-5.313476	0.0000
X_3_TK	0.328348	0.205201	1.600133	0.1144

Source: data processed with Eviews 12 (2025)

The way to determine the table, you can see the local revenue statistics table of the significance level 0.05 with df (n-k). The result obtained for the t_{table} value was 2.04227. From the calculation of the formula of the table result, it can be concluded that:

1. The Capital Expenditure variable (X_1) has a $t_{statistics}$ value of -3.026250 < a t_{table} of 2.04227 and with a significance level of probability value of 0.0035 > 0.05. So H_1 is rejected.
2. The variable of Budget Financing Surplus (X_2) has a $t_{statistics}$ value of -5.313476 > t_{table} 2.04227 and with a significance level of probability value of 0.0000 < 0.05. So H_1 is accepted.
3. *The Prosperity Level variable* (X_3) has a $t_{statistics}$ value of 1.600133 < a t_{table} of 2.04227 and with a significance level of probability value of 0.1144 > 0.05. So H_1 is rejected.

The F-test assesses the combined effect of independent variables on the dependent variable. In this case, to find out simultaneously the variables of capital expenditure, the remaining budget financing with the level of prosperity having a notable influence on financial performance or not. This test uses a significant level of 0.05. Outcomes of the statistical test are presented with the original income of the region Table 10.

Table 10. Simultaneous Significance Test Results (f)

Cross-section fixed (dummy variables)		
Root MSE	0.192530 R-squared	0.906489
Mean dependent var	0.876569 Adjusted R-squared	0.854699
S.D. dependent var	0.632713 S.E. of regression	0.241180
Akaike info criterion	0.268357 Sum squared resid	3.780902
Schwarz criterion	1.220553 Log likelihood	23.31379
Hannan-Quinn criter.	0.653934 F-statistic	17.50302
Durbin-Watson stat	2.677300 Prob(F-statistic)	0.000000

Source: data processed with Eviews 12 (2025)

The $F_{statistics}$ value is 17.50302. To determine F_{table}, it can be seen that the real income of the region is a statistical table of the local income of a significance level of 0.05 with df 1 (free amount) = 3, and df 2 (n-k), with n as the sample quantity and k as the variable quantity. The result obtained for F_{table} is 2.92000. The result obtained from $F_{statistics}$ is 17.50302 with a significance of 0.000000. This means that the Calculation of 17.50302 > the Calculation of 2.92000 and the level of capital expenditure, the Remaining Budget Financing and the level of prosperity simultaneously have a significant influence on Financial Performance.

DISCUSSION

The Effect of Capital Expenditure on Government Financial Performance

The t-value calculated for the capital expenditure variable shows that capital expenditure has a notable negative influence on the government's financial performance. This means that the first hypothesis is accepted. The increase in capital expenditure which reduces the level of independence due to the increase in capital expenditure budgeting is not always balanced by the increase regional original revenue (Martini et al., 2022; Novita & Arza, 2024). This indicates that capital expenditure carried out by the government is not on target, such as infrastructure development that does not have an impact on local income or does not encourage new income, thus causing budget waste and a decrease in the quality of public services, which makes financial independence decrease. Capital expenditure should be an important instrument in encouraging regional development, but if its implementation is not on target or not adjusted to local needs, then the amount of capital expenditure risks not providing significant benefits (Meilanda et al., 2023). Therefore, aligning capital expenditure with strategic regional priorities is essential to maximize its positive impact on both economic growth and financial autonomy.

The outcomes of this research align with (Novita & Arza, 2024) and (Desky et al., 2023) which states that capital expenditure has a negative influence on the financial performance of the regional government. In contrast to research (Ratnasari & Meirini, 2023) which states that capital expenditure has a positive influence on the financial performance of the regional government and (Ardelia et al., 2022), (Natoen et al., 2019) and (Pangestu, 2023) which states that capital expenditure has no effect on the financial performance of the regional government.

The Effect of Remaining Surplus Budget Financing on Government Financial Performance

The t-test hypothesis test showed that the t-value calculated for the variable of budget surplus financing shows has a significant negative influence on the government's financial performance. This means that the second hypothesis is accepted. The smaller number of budget financing remaining in the financial statements indicates that financing is well done to finance activities and cover the deficit that occurs so that there are no funds that are not used (Ratnasari & Meirini, 2023; Zulkifli et al., 2024; Uttunggadewi et al, 2024). Careful allocation ensures funds are used proactively for priority needs, not left idle. This is in accordance with the principles of budget efficiency and transparency in regional financial management, where every rupiah must be used optimally for the public interest, not just a passive number (Halim, 2012).

The outcomes are in line with (Ratnasari & Meirini, 2023) which declares that the remaining budget financing has a negative effect on the financial performance of the regional

government. This research does not support research (Putri & Ratnawati, 2023) which declares that the remaining budget financing has no effect on the financial performance of the regional government.

The Effect of Prosperity Levels on Government Financial Performance

Based on the t-test, the t-value calculated for the prosperity level shows that the prosperity level variable has no effect on the government's financial performance. This means that the third hypothesis is rejected The regional revenue structure is still dominated by transfer funds from the central government, so that the contribution of regional original revenue total income remains low, and the regions remain dependent on local income from external assistance so that financial independence remains weak (Andani et al., 2019). Despite revenue efforts, dependence on central transfers limits local governments' financial autonomy and strategic investment capacity. Quality regional original revenue the increase is only nominal, not structural, because the local economic base is not strong enough to generate large revenues, while the need for financing development and public services continues to increase.

The outcomes are in line with (Andani et al., 2019) which declares that the prosperity rate has no effect on financial performance. This research does not support research (Natoen et al., 2019), (Pradana et al., 2022) which declares that level of prosperity has a notable positive effect on the financial performance of the regional government and (Aulia & Rahmawaty, 2020) which states that the prosperity level has a significant negative effect on the financial performance of the regional government.

The Effect of Capital Expenditure, Remaining Budget Financing, and Prosperity Level on Government Financial Performance

The outcomes of the hypothesis testing the effect of capital expenditure, remaining budget financing, and prosperity level on the financial performance of provincial governments in Indonesia has a $F_{statistics}$ value of 17.50302. When compared to the F_{table} of 2.92000, the Fcal is larger than the F_{table} (17.50302 > 2.92000). In addition, the significance value of the variables capital expenditure, remaining budget financing, and prosperity level together showed a value below the significant level of 5% ($\alpha = 0.05$) which was 0.000000. Therefore, it can be concluded that the variables of capital expenditure, remaining budget financing, and prosperity level simultaneously have a positive and significant relationship with the Financial Performance of Provincial Regional Governments in Indonesia. This means that the fifth hypothesis is accepted. The coefficient of determination (R^2) of the Adjusted R-Squared value is 0.854699. This means that 85.4% of the dependent variables, namely the Financial Performance of Provincial Governments in Indonesia, are influenced by capital expenditure, remaining budget financing and prosperity level, while the remaining 14.6% are accounted for and affected by external variables not included.

The results of this study are similar to (Ratnasari & Meirini, 2023) which declares the regional original revenue, balance fund, budget overflow, and capital expenditure affects financial performance. Research (Aulia & Rahmawaty, 2020) which shows the prosperity of the local government, the size of the local government and the level of dependency affect financial performance, (Putri & Ratnawati, 2023) declaring the regional original revenue, balance fund, budget overflow affect financial performance and (Putri et al., 2021; Ardelia et al., 2022) which shows that regional original revenue, balance fund, capital expenditure have an effect on financial performance.

CONCLUSION

Capital expenditure has an indirect and strong effect on the financial performance of Provincial Governments in Indonesia. The remaining budget financing has an indirect and strong effect on the financial performance of Provincial Governments in Indonesia. The level of prosperity has no effect on the Financial Performance of Provincial Governments in Indonesia. Capital expenditure, remaining budget financing, and prosperity rate have a strong effect on financial performance. Regional governments need to focus capital expenditures on productive

sectors and sustainable investments to increase local revenue and financial performance. Remaining Budget Financing management should be more accurate and disciplined to ensure optimal use of funds. Prosperity rate should be improved by exploring local potential and innovating asset management. Future research is recommended to expand factors, scope, and duration for more representative results.

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