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The Influence of Local Original Revenue and Capital Expenditure on the Financial Performance of District/City Governments in Central Sulawesi Province in 2019-2023

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Abstract

Performance is an achievement that can be achieved by an organization within a certain period of time. Regional financial performance or regional capacity is one measure that can be used to see the ability of a region to run the regional economy. This study aims to determine and analyze the effect of regional original income and capital expenditure on regional financial performance, as well as to determine which variables have the most dominant influence on regional financial performance in districts/cities in Central Sulawesi province. The data processed is secondary data from the annual reports of districts/cities in Central Sulawesi province for 2019-2023 which were taken with total sampling. The method used in this study is the multiple linear regression analysis method using the SPSS 25 application. The results of this study indicate that: regional original income does not have a significant effect on regional financial performance and capital expenditure has a negative and significant effect on regional financial performance.

Keywords *Local Original Income, Capital Expenditure, Financial Performance.*

INTRODUCTION

Law Number 23 of 2014 for its region can be regulated independently according to the authority given. In addition, it is stated that the regional government must have transparent accounting and accountability practices to the region. Law of 2019 Government Regulation Number 12 Article 3 emphasizes that all regional finances must be carried out openly, orderly, responsibly, and legally, and economically by prioritizing compliance with regulations, public interest, equality and equity. This encourages regional governments to further empower all their potential in order to build and develop their regions. Regional governments are also expected to be increasingly independent, reducing dependence on the central government, both in terms of development financing and in terms of regional financial management.

Based on the analysis results for the Regency/City category, the average Regional Fiscal Independence Index (IKPD) in the Central Sulawesi region for the regency/city cluster has experienced a slight increase in the last 6 (six) years. Most regencies/cities in this region are still in the Not Yet Independent category. There is only one local government in Central Sulawesi province that has received the category towards independence from a total of 13 regencies in Sulawesi that have received the predicate towards independence. The regency is Morowali regency with a fiscal level. This phenomenon illustrates that the local government of Central Sulawesi Province has not been categorized as independent and is still dependent on the central government.

Another phenomenon of suboptimal regional financial management in Central Sulawesi is the delay in payment of salaries for Civil Servants (PNS) and Government Employees with Work Agreements (PPPK) in Central Sulawesi Province in early 2025. This delay was influenced by factors such as the delay in ratification of the Regional Revenue and Expenditure Budget (APBD), budget deficit, and imbalance between revenue and expenditure. Palu City, for example, experienced a APBD deficit of IDR 144.19 billion in 2024 due to large capital expenditures but not balanced by an increase in Regional Original Income (PAD). As a result, the local government has difficulty meeting routine payment obligations, including employee salaries.

Regional governments in carrying out their functions and authorities are expected to optimize financial resources, especially through Regional Original Income (PAD), in order to meet government needs and support regional development. Based on Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments, Article 1 number 18, it is stated that regional original income is income obtained by regions that is collected based on regional regulations in accordance with laws and regulations. All revenues that enter the regional treasury and originate from within the region and are collected in accordance with applicable regulations are used to support regional needs, so that each region must strive to collect PAD optimally. In addition, another factor that influences the financial performance of regional governments is regional spending, which according to Antari & Sedana, (2018), has a close relationship with the quality of public services provided to the community.

One of the important components in regional spending is capital spending, namely spending on the procurement of goods or construction of tangible fixed assets used in government activities. According toAyinde et al. (2015), capital expenditure is government spending on certain projects that aim to improve the quality of life of the community in the long term, usually more than one year. This capital expenditure includes infrastructure development, procurement of equipment, and other fixed assets, which are expected to improve the quality of public services through increased investment in strategic sectors.

Regional financial management reflected in the Regional Revenue and Expenditure Budget (APBD) can be used as an instrument to establish regulations that encourage regional progress, so that accountability reports related to the use of regional finances must be submitted annually. Regional financial performance can be used as a measure to assess the region's ability to manage finances well and optimally in order to maintain the expected quality of public services. Regional financial performance can be in the form of the level of achievement of a job within the scope of territorial funds such as territorial income and consumption by utilizing a budget framework decided through a regulation or legislation for one budget period.

Previous research on financial performance has been widely studied, but there are different results and variables between studies. The existence of different and inconsistent results is the motivation to conduct further research on financial performance. Therefore, in this study, tests were conducted on several factors that affect financial performance, namely local revenue and capital expenditure.

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LITERATURE REVIEW

According to Brigham, signaling theory is an action taken by a company to provide investors with guidance on how management views the company's prospects. This signal is in the form of information about what management has done to realize the owner's wishes. In this study, signaling theory explains that the local government as the recipient of the mandate/trust from the people will try to provide a good signal to the community in the form of regional financial performance. Good financial performance shows that the local government has carried out the mandate given by the community.

According to Law Number 17 of 2003, local revenue is an addition to the net wealth value that the local government has the right to recognize. Law Number 33 of 2004 states that the purpose of Local Revenue is to provide authority to local governments to fund the implementation of regional autonomy in line with the potential in their regions as a manifestation of decentralization. In this regional autonomy, the independence of local governments is highly demanded in financing regional development and services to the community. Regional financial policies are directed at increasing local revenue as the main source of regional income that can be used by regions in implementing government and development according to their needs. Meanwhile, Law Number 23 of 2014 concerning the Regional Government states that there is a separation of four types of income in the PAD group, namely: income from regional taxes, income from regional levies, and income from managing separated regional assets.

Based on the Regulation of the Minister of Finance Number 91 of 2007 concerning the Standard Account Chart (BAS), capital expenditure is a budget expenditure, which is used in order to acquire or add fixed assets and other assets, which provide benefits for more than one accounting period, and exceeds the minimum capitalization limit of fixed assets or other assets set by the government. Regional government investment is directly related to capital expenditure. The large number of infrastructure and facilities being built is reflected in the high capital expenditure, thus encouraging economic expansion. With the increasing development of infrastructure and improvements to existing infrastructure by the regional government, it is expected that regional economic growth will increase. In the Government Accounting Standards (SAP) regulated in the Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning government accounting standards, capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Such as in the form of land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets.

According to Government Regulation Number 8 of 2006 concerning Financial Reporting and Performance of Government Agencies, performance is an output or result of activities or programs that are intended or have been achieved in connection with the use of the budget with measurable quantity and quality. Wibowo (2011), emphasized that it is necessary to measure performance with the aim of knowing whether there are differences in the implementation of activities from the existing plan, or whether performance can be carried out according to schedule, or whether the performance results are in accordance with

expectations. According to Mardiasmo (2009), in order to manage regional finances that are transparent, honest, democratic, effective, efficient, and accountable, financial ratio analysis of regional income and expenditure needs to be carried out. In analyzing the performance of regional governments in managing their regional finances, one of the tools is to carry out a ratio analysis of the APBD that has been determined and implemented.

Local revenue is an important part of territorial recognition which then plays a role in regional progress in order to improve the welfare of the community within the city. The high ability of the region to generate PAD will later be adjusted to regional development in order to fulfill the needs of the community.(Mahmudi & Sallama, 2010). Local revenue has a contribution to the growth of local revenue so that local governments reduce their dependence on the central government (Antari & Sedana, 2018). Financial performance will also be affected if local revenue growth increases. because the financial performance of local governments improves when local revenue increases. In the study Fernandes & Putri, (2022)states that regional income has a positive effect on regional financial performance. Based on the description above, the following conclusions can be drawn regarding the hypothesis in this study:

H1: Local original income has a positive effect on the financial performance of local governments.

Capital expenditure is a budget by the regional government so that the benefits of fixed assets last more than one year. One of the capital expenditures carried out by the regional government is infrastructure development. This development is believed to increase the regional income in the coming years. Good financial management is indicated by the initiative of the regional government to increase funding for capital expenditure, or community interests. Better financial success of the regional government is indicated by higher growth in local revenue. The allocation of increasing amounts of money to the regional government for infrastructure development will improve fiscal performance. Furthermore, community productivity can increase, and the efficiency of various sectors can be improved with adequate infrastructure. In the study Heryanti et al. (2019)states that Capital expenditure has a positive effect on the financial performance of local governments. Based on the description above, the following conclusions can be drawn about the hypothesis in this study:

H2: Capital expenditure has a positive effect on local government financial performance.

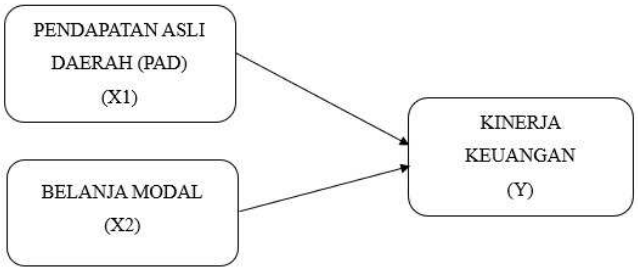

Figure 1. Framework

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METHOD

The object of this research is Local Original Revenue (PAD) and capital expenditure as independent variables and financial performance as dependent variables in the Central Sulawesi Provincial Government. This study uses a quantitative approach that aims to explain empirical phenomena through statistical data, characteristics, and patterns of relationships between variables in a case study of the influence of PAD and capital expenditure on the financial performance of the Central Sulawesi Provincial Government. The research was conducted at the Central Sulawesi Provincial Financial and Asset Management Agency (BPKAD) using secondary data in the form of a report on the realization of the Central Sulawesi Provincial Budget for the 2019–2023 period. Data were obtained from regional revenue and expenditure budget (APBD) report documents sourced from BPKAD and other supporting information such as journals and the internet. Data collection techniques were carried out through secondary data collection, namely obtaining reports on the realization of revenue and expenditure of district/city governments throughout Central Sulawesi Province in 2019–2023 and other relevant information. The population in this study were all district/city governments in Central Sulawesi Province consisting of 12 districts and 1 city, with the criteria of local governments that publish PAD and capital expenditures and routinely report APBD Realization Reports during 2019–2023. This study uses a saturated sampling method where the entire population is sampled, with a time span of five years as the latest financial reporting period so that the results of the study are expected to reflect the actual financial conditions in Central Sulawesi Province.

Data analysis in this study used SPSS 25 software by conducting descriptive statistical tests to provide an overview of the research variables while supporting the variables studied without generalization or drawing conclusions. Using classical assumption tests consisting of normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. Furthermore, in testing the hypothesis using partial tests (t-tests), simultaneous tests (F-tests) and determination coefficient tests. And finally, Multiple linear regression tests with the following regression models:

$$\boldsymbol{Y = \alpha + \beta 1.X1 + \beta 2.X2 + e}$$

Operational Variables

Table 1. Measurement of Variables

Variables	Indicator	Size	Scale
Local Original Income (X1) Mahmudi, ASP 2014	Regional Financial Capability Ratio	$\frac{Pendapatan\ Asli\ Daerah}{Total\ Pendapatan\ Daerah} X100$	Ratio
Capital Expenditure (X2) Mahmudi, ASP 2014	Capital Expenditure Effectiveness Ratio	$\frac{Belanja\ Modal}{Total\ Belanja} \times 100$	Ratio

Financial Performance (Y) Mahmudi, ASP 2014	Regional Expenditure Efficiency Ratio	$\frac{Belanja\ Daerah}{Pendapatan\ Daerah} \times 100$	Ratio

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis aims to provide an overview of the data presented. Descriptive statistical tools analyze data in the form of minimum values, maximum values, averages (means), and standard deviations.

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
PAD	65	3.39	30.52	9,5091	6,02321
Capital Expenditure	65	4.99	33.03	17,6167	5,35860
Financial performance	65	,61	1.38	,9988	,14669
Valid N (listwise)	65				

Source: Processed Secondary Data, 2025

Based on table 2 above, it can be concluded that the original regional income (PAD) as variable X1 has the lowest value of 3.39 in Sigi Regency and the highest value of 30.52 in Morowali Regency, the average value (mean) is 9.5091, and the standard deviation is 6.02321. In variable X2, Capital Expenditure has the lowest value of 4.99 in Banggai Kepulauan Regency and the highest value of 33.03 in Banggai Laut Regency, the average value (mean) is 17.6167, and the standard deviation is 5.35860. And the financial performance of the local government as variable Y has the lowest value (min) of 0.61 in Palu City and the highest value (max) of 1.38 in Tolitoli Regency with an average value (mean) of 0.9988, and a standard deviation of 0.14669.

Classical Assumption Test

Normality Test

The normality test is used to test whether the regression model in this study has residuals that are normally distributed or not. The way to detect this is by using the non-parametric Kolmogorov Sminrnov (KS) statistical test. Distribution can be said to be normal if the sig value is >0.05(Ghazali, 2018).

Table 3. Kolmogorov-Smirnov Normality Test Results

One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual
N	65

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Normal Parametersa,b	Mean	,0000000
	Std. Deviation	,13849399
Most Extreme Differences	Absolute	,102
	Positive	,099
	Negative	-,102
Test Statistics	,102	
Asymp. Sig. (2-tailed)	,092c	

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Processed Secondary Data, 2025

Based on table 3. It can be seen that the output value of Asymp. Sig. (2-tailed) of 0.92 is greater than 0.05, so it can be concluded that the research data is normally distributed.

Multicollinearity Test

Multicollinearity test is used to test whether a research regression model has a correlation between independent variables. A good regression model is one where there is no correlation between variables, meaning there are no symptoms of multicollinearity by looking at the VIF (Variance Inflation Factor) and also the tolerance value. The values used to see the absence of symptoms of multicollinearity are VIF values <10 and tolerance values <0.10 (Ghazali, 2018).

Table 4. Multicollinearity Test Results

Coefficientsa

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	PAD	,968	1,033
	Capital Expenditure	,968	1,033
a.	Dependent Variable: Financial Performance		

Source: Processed Secondary Data, 2025

Based on table 4. It can be seen that the results of the multicollinearity test have a tolerance value above 0.1 and a VIF value less than 10, so it can be concluded that there is no multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to test the inequality of variance and residuals in the regression model. A good regression model is a regression model that is homoscedastic or does not have heteroscedasticity.(Ghozali, 2018). To determine heteroscedasticity, the Glejser test can be used, with the basis for decision making if the sig value is >0.05 then it can be concluded that there is no heteroscedasticity problem, but conversely if the sig value

is <0.05 then there is a heteroscedasticity problem. The results of the heteroscedasticity test can be seen in the following table:

Table 5. Heteroscedasticity Test Results

Coefficientsa

	Model	Sig.
1	(Constant)	,093
	PAD	,946
	Capital Expenditure	,663

a. Dependent Variable: ABS_RES

Source: Processed Secondary Data, 2025

Based on table 5. It can be seen from the results of the heteroscedasticity test with the Glejser test that each independent variable has a significance value >0.05, so it can be concluded that this research model is free from heteroscedasticity problems.

Autocorrelation Test

The autocorrelation test is used to test whether there is a correlation between the disturbance error in period t and the disturbance error in period t-1 or in the previous period in the regression model. The basis for making a decision on the presence or absence of autocorrelation is as follows: (a) If the DW value is smaller than dL or greater than (4-dL), then the null hypothesis is rejected, which means there is autocorrelation; (b) If the DW value lies between dU and (4-dU), then the null hypothesis is accepted, which means there is no autocorrelation; (c) If the DW value lies between dL and dU or between (4-dU) and (4-dL), then it does not produce a definite conclusion.

Table 6. Autocorrelation Test Results

Summary[b] Model

Model	Durbin-Watson
1	1,121

a. Predictors: (Constant), Capital Expenditure, PAD

b. Dependent Variable: Financial Performance

Source: Secondary Data Processed 2025

Based on the table above, the Durbin Watson value of 2.121 is compared using a significance value of 5%, the number of samples is 65 (n), and the number of independent variables is 2 (k = 2), then in the Durbin Watson table the du value will be 1.6621. Because the DW value of 2.121 is greater than the upper limit (DU) of 1.6621 and less than 4 - 1.6621 (2.3379), it can be concluded that there is no autocorrelation.

Multiple Linear Regression Test

Multiple linear regression analysis is used to analyze how much influence the independent variables have on the dependent variable, whether each independent variable is

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positively or negatively related, and to predict the value of the dependent variable if the value of the independent variable increases or decreases. The results of the multiple linear regression analysis equation are presented in table 7.

Table 7. Multiple Linear Regression Test Results

Coefficienta

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,127	,063		17,893	,000
	PAD	,003	,003	,129	1,062	,292
	Capital Expenditure	-,009	,033	-,327	-2,683	,009

a. Dependent Variable: Financial Performance

Source: Processed Secondary Data, 2025

From the table above, the multiple linear regression equation is obtained as follows:

Financial Performance=1.127 + 0.003X1 − 0.009X2 + e

The constant value is 1.127, meaning that if all independent variables are 0, the Financial Performance value will be 1.127. PAD has a regression coefficient value of 0.003, if the PAD value increases by 1, the financial performance value will increase by 0.003%. Capital Expenditure has a coefficient value of -0.009, if Capital Expenditure increases by 1%, Financial Performance will increase by 0.009%.

Hypothesis Testing

Partial Test Results (t-Test)

The t-test basically shows how far the influence of one independent variable individually in explaining the variation of the dependent variable is done by looking at the significant value of t on the regression output of 0.05 or 5%. The hypothesis is accepted and said to have an effect if the significant value of t <0.05. The results of the t-test can be seen in table 8.

Table 8.t-Test Results

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,127	,063		17,893	,000
	PAD	,003	,003	,129	1,062	,292
	Capital Expenditure	-,009	,033	-,327	-2,683	,009

a Dependent Variable: Financial Performance

Source: Processed Secondary Data, 2025

Based on table 8, it can be explained that the PAD variable has a significant value of 0.292, which is smaller than 0.05. This shows that PAD partially has a significant effect on

Financial Performance. In other words, an increase in PAD will contribute positively to the value of Financial Performance. The Capital Expenditure variable has a significant value of 0.009, which is also smaller than 0.05. This means that Capital Expenditure partially has a significant effect on Financial Performance, although the coefficient is negative. This means that an increase in Capital Expenditure will significantly reduce the value of Financial Performance.

Coefficient of Determination (R2)

The coefficient of determination (R2) test is used to measure how far the model's ability to explain the variation of the dependent variable. The greater the value of the coefficient of determination, the more information can be explained by the independent variable. The results of the coefficient of determination test can be seen in table 9.

Table 9. Results of the Determination Coefficient Test (R2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,330a	,109	,080	,14071

a. Predictors: (Constant), Capital Expenditure, PAD

Source: Processed Secondary Data, 2025

Based on the results of the determination coefficient above, the R Square value is 0.109 or 10.9%. This shows that the independent variables (PAD and Capital Expenditure) can explain the variation in the dependent variable (Financial Performance) by 10.9%. Meanwhile, 89.1% of the variation in Financial Performance is influenced by other variables outside this research model. Thus, although this model makes a significant contribution, there are still other factors that influence purchasing decisions that are not covered in this analysis.

The Influence of Local Original Income on Financial Performance

The results of the study indicate that local revenue does not have a significant effect on financial performance. This can be seen in table 8 which shows that the significance value is 0.292 or greater than 0.05. So, the first hypothesis (H1) which states that local revenue has a positive effect on financial performance is not accepted (rejected). This shows that local revenue does not have a significant effect on the financial performance of the Central Sulawesi Province region. The acquisition of regional wealth in the form of local revenue by the regional government has not been optimal so that it cannot immediately improve the financial performance of the regional government. In 2019-2023, PAD in Central Sulawesi Province did not reach half of the total revenue, which was only 10.2 percent, so it can be said that the ability of the regional government in implementing decentralization to improve its financial performance is still lacking so that the regional government can be said to have not been able to explore regional potentials to obtain greater PAD. The regional government must explore more and see the resources it has to improve the financial performance of its

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regional government, so that not only one income is explored, but all regional potentials to obtain income can be optimized in their management so that they can improve regional financial performance. The results of this study are in line with the results of previous research conducted by(Niswani & Ikhyanuddin, 2022)And(Pratama et al., 2024)which states that Regional Original Income does not have a significant effect on regional financial performance.

The Impact of Capital Expenditure on Financial Performance

The results of the study indicate that capital expenditure has a negative and significant effect on financial performance. This can be seen in table 8 which shows that the unstandardized beta coefficient value is -2.683 with a significance level of 0.009 or less than 0.05. So the second hypothesis (H¬2) which states that capital expenditure has a positive effect on financial performance is not accepted. The results of this study indicate that capital expenditure activities carried out by the regional government of the Regency/City of Central Sulawesi Province for the period 2019-2023 have not been fully able to contribute to the growth of regional income of the Regency/City of Central Sulawesi Province in 2019-2023. Capital expenditure can be said to be an investment activity of the regional government, but even so, capital expenditure activities in the regional government are not aimed at seeking profit. Capital expenditure activities can increase fixed assets owned by the region and are able to generate financial resources in the long term. Based on this statement, it indicates that the capital expenditure activities carried out by the government at this time will generate financial resources several years later so that the financial resources generated through these capital expenditure activities are able to contribute to regional income growth several years later.

Another factor that causes capital expenditure to have a significant negative effect on the growth of regional government financial performance is because not all capital expenditure activities are able to generate financial resources directly for the region. The success of each capital expenditure activity is not only measured in terms of regional income growth but also in terms of the quality provided as expected, something produced according to the amount needed, the implementation of capital expenditure activities according to the specified time, capital expenditure activities are directed at the public interest, and the costs incurred for capital expenditure activities should not exceed the previously set budget so that it has an impact on community welfare. The results of this study are in line with the results of research conducted by (Hastuti & Nasution, 2024) and (Antari & Sedana, 2018) which found that capital expenditure had a significant negative effect on the growth of regional financial performance.

CONCLUSION

This study aims to analyze the effect of Local Original Income (PAD) and capital expenditure on the financial performance of district/city governments in Central Sulawesi Province in the 2019–2023 period. Based on the results of multiple linear regression analysis, it was found that PAD did not have a significant effect on regional financial performance,

which means that increasing PAD has not been able to directly increase the efficiency and effectiveness of financial management by local governments. This reflects that the contribution of PAD to total regional income is still low and not optimal, so it is not strong enough to encourage regional fiscal independence. Meanwhile, capital expenditure actually shows a negative and significant effect on regional financial performance, which indicates that government investment in the form of infrastructure development or procurement of fixed assets has not been fully designed and implemented efficiently to provide a short-term positive impact on financial management. The use of capital expenditure budgets that are not on target, lack of mature planning, and inefficient project implementation are the causes of the decline in the quality of regional financial performance.

Therefore, it is recommended that local governments increase their PAD management capacity through diversification of revenue sources based on local potential and improvement of fiscal administration and transparency systems. In addition, a comprehensive evaluation of capital expenditure programs is needed, starting from the planning, implementation, to supervision stages, so that the investments made can provide long-term economic benefits and support the achievement of sustainable and accountable regional development goals. Collaboration between stakeholders and improving professional regional financial governance are the keys to improving financial performance and realizing fiscal independence in the future.

Based on the results of the research that has been conducted, it is expected that further research will need to be conducted to test other factors that influence financial performance, such as special funds and economic growth which were not included in this study.

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