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The Effect Of Local Own-Source Revenue, Capital Expenditure, And Budget Surplus (Silpa) On The Financial Performance Of District And Municipal Governments In Aceh Province

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Abstract

Regional financial performance is an important indicator for assessing the success of regional autonomy implementation and the level of fiscal independence. However, the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period has not yet reached an optimal level. Previous studies examining the effects of Local Own-Source Revenue, Capital Expenditure, and Budget Surplus on regional financial performance have produced inconsistent findings. This study aims to analyze the influence of Local Own-Source Revenue, Capital Expenditure, and Budget Surplus on the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period. A quantitative approach was employed using secondary data obtained from the Budget Realization Reports of 23 district and municipal governments over four years, resulting in 92 observations. Panel data regression analysis was conducted using the Fixed Effect Model. The results indicate that Local Own-Source Revenue has a positive and significant effect on regional financial performance, Capital Expenditure has a negative and significant effect, while Budget Surplus has no significant effect on financial performance. The novelty of this study lies in incorporating Budget Surplus as an independent variable together with Local Own-Source Revenue and

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Capital Expenditure to explain regional financial performance in district and municipal governments in Aceh Province during the most recent observation period.

Keywords: Local Own-Source Revenue, Capital Expenditure, Budget Surplus, Financial Performance, Local Government.

INTRODUCTION

The implementation of regional autonomy in Indonesia grants broader authority to local governments to independently manage their resources and finances. This policy aims to improve the effectiveness of governance, accelerate regional development, and enhance public welfare through transparent, accountable, and efficient financial management (Putri & Priyadi, 2021). In its implementation, local governments are required to optimize all revenue potential and allocate budgets appropriately in order to create sustainable fiscal independence. Therefore, the financial performance of local governments has become one of the important indicators for assessing the success of regional autonomy implementation (Maisyarah & Sufa, 2025).

The financial performance of local governments reflects the government's ability to manage revenue, expenditure, and financing effectively so that it can provide optimal public services (Halim, 2021). Evaluating financial performance is necessary as a form of accountability in regional financial management and serves as a basis for formulating fiscal policy in the following period (Prasetia et al., 2024). A local government is considered to have good financial performance if it is able to meet development financing needs by relying on local revenue sources while reducing dependence on the central government (Dani, 2022). Thus, improving financial performance is one of the main factors in achieving regional fiscal independence.

Nevertheless, the financial performance of local governments in Indonesia still faces various challenges. According to a statement by the Deputy Minister of Home Affairs, Bima Arya, around 80% of local governments in Indonesia still have a low level of fiscal independence. This condition also applies to Aceh Province, which still depends on central government transfers for around 70% of its revenue. In addition, the low budget absorption realization in several district and municipal governments in Aceh indicates that regional financial management has not been running optimally. Data from the Directorate General of Fiscal Balance (DJPK) show that the financial performance ratio of district and municipal governments in Aceh Province fluctuated during the 2021–2024 period, increasing to 11.92% in 2023 before declining again to 8.06% in 2024. This percentage

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still falls within the instructive relationship pattern category, indicating a very low level of fiscal independence, meaning that local governments remain dependent on the central government to finance the administration of their governance (Irnawati et al., 2023).

The low financial performance of local governments is presumably influenced by several factors, including Local Own-Source Revenue (PAD), Capital Expenditure, and Budget Surplus (SiLPA). PAD is a source of regional revenue derived from the region's own economic potential, making it a key indicator for measuring the fiscal capacity of local governments (Natalia & Suprapto, 2023). The higher the PAD, the greater the local government's ability to finance development without depending on transfer funds from the central government. However, DJPK data show that the realization of PAD among district and municipal governments in Aceh Province fluctuated during 2021–2024. This decline in PAD indicates that regional revenue potential has not been optimally utilized, which could reduce local financial capacity. These findings are supported by studies by Maharani et al. (2024) and Hutauruk (2024), which stated that PAD has a positive effect on local government financial performance. However, research by Atmoko and Khairudin (2022) found different results, indicating that the relationship between PAD and financial performance still requires further testing (Irmawati et al., 2024).

Besides PAD, Capital Expenditure is also a factor that plays a role in improving local government financial performance. Capital expenditure is used to acquire fixed assets that provide long-term economic benefits, such as the construction of roads, buildings, networks, and other public infrastructure (Halim, 2021). Optimal allocation of capital expenditure is expected to improve the quality of public services while also driving regional economic growth (Maisyarah, 2025). However, DJPK data show that the realization of capital expenditure among district and municipal governments in Aceh Province fluctuated significantly during 2021–2024. The decline in capital expenditure is presumably caused by limited fiscal capacity, low budget absorption, and regional spending efficiency policies (Ardelia et al., 2022). Research by Abubakar (2021) found that capital expenditure has a positive effect on local government financial performance, whereas Natalia and Suprapto (2023) obtained different results. These differing findings indicate that the effect of capital expenditure on financial performance remains inconsistent.

Another factor presumed to influence financial performance is the Budget Surplus (SiLPA) (Nuryadi et al., 2017). According to government regulations, SiLPA represents the surplus between realized revenue and expenditure at the end of the fiscal year. An excessively large SiLPA value may indicate low effectiveness in budget implementation,

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weak program planning, or a low level of budget absorption (Amelia & Khoiriawati, 2022). DJPK data show that the SiLPA value of district and municipal governments in Aceh Province also fluctuated during 2021–2024. The high SiLPA in several regions indicates that development programs have not been fully implemented optimally. Research by Fitriani and Syarif (2025) stated that SiLPA affects local government financial performance, while Putri and Ratnawati (2023) found that SiLPA has no significant effect. These differing results indicate that the relationship between SiLPA and financial performance still requires further empirical evidence.

Based on empirical phenomena and previous research findings, inconsistencies remain regarding the effects of PAD, Capital Expenditure, and SiLPA on local government financial performance. Most previous studies have also used periods prior to 2021 or focused on only one or two independent variables, and therefore do not yet capture the condition of regional financial management during the post-pandemic fiscal recovery period. Thus, a research gap remains that needs to be further examined, particularly concerning district and municipal governments in Aceh Province.

This study offers novelty (state of the art) compared to previous research by integrating Local Own-Source Revenue, Capital Expenditure, and Budget Surplus (SiLPA) as determinants of local government financial performance using the most recent data from 2021–2024. This period was selected because it reflects the condition of regional fiscal recovery following the Covid-19 pandemic, thereby providing a more current empirical picture of the factors influencing the financial performance of district and municipal governments in Aceh Province. Based on the foregoing, this study aims to analyze the effect of Local Own-Source Revenue, Capital Expenditure, and Budget Surplus (SiLPA) on the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period.

METHODS

This study is a quantitative study using an associative approach aimed at analyzing the effect of Local Own-Source Revenue (PAD), Capital Expenditure, and Budget Surplus (SiLPA) on local government financial performance (Indartini & Mutmainah, 2024). The object of this study is district and municipal governments in Aceh Province. The study uses secondary data in the form of Budget Realization Reports (LRA) of local governments that have been audited by the Audit Board of the Republic of Indonesia (BPK), obtained through the Information and Documentation Management Officer (PPID) service at https://e-ppid.bpk.go.id. The study period covers 2021–2024.

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The study population consists of all 23 district and municipal governments in Aceh Province. The sampling technique used was saturated/census sampling (Sugiyono, 2024), so that the entire population was used as the research sample. With an observation period of four years, a total of 92 observation units were obtained (23 local governments × 4 years).

Data were collected through documentation and literature study methods (Maisyarah & Sufa, 2026). The documentation method was carried out by collecting audited Budget Realization Reports (LRA), while the literature study was conducted by reviewing books, scientific journals, laws and regulations, and other literature relevant to the research.

The dependent variable in this study is local government financial performance, measured using the regional financial independence ratio. The independent variables consist of Local Own-Source Revenue (PAD), Capital Expenditure, and Budget Surplus (SiLPA). The operational definitions of each variable are presented in Table 1.

Table 1. Operational Definition of Variables

Variable	Operational Definition	Indicator	Scale
Financial Performance (Y)	The local government's ability to manage financial resources effectively and independently.	Regional Financial Independence Ratio	Ratio
Local Own-Source Revenue (X1)	All regional revenue derived from the region's own economic potential in accordance with applicable laws and regulations.	Realized PAD	Ratio
Capital Expenditure (X2)	Local government expenditure to acquire or add fixed assets that provide benefits for more than one accounting period.	Realized Capital Expenditure	Ratio
SiLPA (X3)	The surplus between realized revenue and expenditure at the end of the fiscal year.	Realized SiLPA	Ratio

Source: Processed data (2026).

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Data analysis was conducted using EViews 13 software with a panel data regression approach, since the research data combines cross-sectional and time-series data (Maisyarah, 2021). The analysis stages include descriptive statistical analysis, panel data regression model selection using the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test to determine the best model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The panel data regression model used in this study is formulated as follows:

$$FP_{it} = \alpha + \beta 1PAD_{it} + \beta 2CE_{it} + \beta 3SiLPA_{it} + \varepsilon_{it}$$

Before hypothesis testing, the model was first tested through classical assumption tests, including the normality test using Jarque–Bera, the multicollinearity test using the correlation matrix, the heteroscedasticity test using the White Test, and the autocorrelation test using Durbin–Watson. Subsequently, hypothesis testing was carried out through partial tests (t-test) to determine the effect of each independent variable on the dependent variable, as well as the coefficient of determination (Adjusted R^2) to measure the model's ability to explain variation in local government financial performance.

RESULTS AND DISCUSSION

Research Results

Descriptive Statistical Analysis

Descriptive statistics are used to provide an overview of the characteristics of the research data, including the minimum, maximum, mean, and standard deviation values of each research variable. The results of the descriptive statistical analysis are presented in Table 2.

Table 2. Descriptive Statistics Results

Statistic	Financial Performance (Y)	PAD (X1)	Capital Expenditure (X2)	SiLPA (X3)
Mean	0.116766	127,274.10	157,364.30	52,997.67
Maximum	0.321842	324,510.40	340,822.90	258,162.30
Minimum	0.028768	34,274.49	60,336.47	852.44

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Statistic	Financial Performance (Y)	PAD (X1)	Capital Expenditure (X2)	SiLPA (X3)
Std. Dev.	0.048633	65,333.48	66,999.08	47,190.19
Observations	92	92	92	92

Source: Processed data (2026).

Based on Table 2, the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period had a mean value of 0.116766 with a standard deviation of 0.048633. The standard deviation being smaller than the mean indicates that the data variation is relatively low. The maximum value of financial performance was 0.321842, while the minimum value was 0.028768.

The Local Own-Source Revenue (PAD) variable had a mean value of 127,274.10 with a standard deviation of 65,333.48, while Capital Expenditure had a mean of 157,364.30 with a standard deviation of 66,999.08. Meanwhile, SiLPA had a mean value of 52,997.67 with a standard deviation of 47,190.19. All variables show standard deviation values smaller than their mean values, indicating that the data distribution is relatively homogeneous and does not show excessive variation across observations.

Panel Data Regression Model Selection

The determination of the panel data regression model was carried out using the Chow Test and the Hausman Test. The Chow Test results show a probability value below 0.05, indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). Furthermore, the Hausman Test results obtained a probability value of 0.0124 (< 0.05), so the best model used in this study is the Fixed Effect Model (FEM).

Table 3. Panel Data Regression Estimation Results (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Probability	Decision
Constant	0.035419	0.005466	6.480331	0.0000	–
Local Own-Source Revenue (X1)	0.000000722	0.000000038	19.209160	0.0000	Significant Positive Effect

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Variable	Coefficient	Std. Error	t-Statistic	Probability	Decision
Capital Expenditure (X2)	-0.000000055	0.000000007	-7.492147	0.0000	Significant Negative Effect
SiLPA (X3)	-0.000000035	0.000000025	-1.414985	0.1618	No Significant Effect

Source: EViews 13 output, processed data (2026).

Based on Table 3, the estimation results using the Fixed Effect Model (FEM) show that Local Own-Source Revenue (PAD) has a coefficient of 0.000000722 with a probability value of 0.0000, indicating a positive and significant effect on local government financial performance. Conversely, Capital Expenditure has a coefficient of -0.000000055 with a probability value of 0.0000, indicating a negative and significant effect on financial performance. Meanwhile, SiLPA has a coefficient of -0.000000035 with a probability value of 0.1618, indicating no significant effect on local government financial performance.

In addition, the Adjusted R-squared value of 0.985149 indicates that variation in local government financial performance can be explained by the variables Local Own-Source Revenue, Capital Expenditure, and SiLPA by 98.51%, while the remaining 1.49% is explained by other variables outside the research model. The Prob(F-statistic) value of 0.000000 indicates that the regression model is simultaneously significant, while the Durbin–Watson value of 1.822382 indicates that the model does not suffer from autocorrelation problems. Based on this model, the following regression equation was obtained:

$$FP = 0.035419 + 0.000000722\ PAD - 0.0000000549\ CE - 0.0000000352\ SiLPA$$

This equation shows that Local Own-Source Revenue has a positive relationship with local government financial performance, while Capital Expenditure and SiLPA have a negative relationship.

Classical Assumption Tests

The normality test using the Jarque–Bera method produced a probability value of 0.144177, which is greater than 0.05. Therefore, the research data are normally distributed. The multicollinearity test shows that all correlation values among the independent variables are below 0.80, indicating no symptoms of multicollinearity.

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Furthermore, the heteroscedasticity test using the Glejser Test shows that all variables have probability values greater than 0.05, indicating that the regression model is free from heteroscedasticity. The autocorrelation test using Durbin–Watson produced a value of 1.822382, which falls within the range indicating no autocorrelation. Therefore, the regression model satisfies the classical assumptions and is suitable for hypothesis testing.

Hypothesis Testing

a). Effect of Local Own-Source Revenue on Financial Performance

The partial test results show that Local Own-Source Revenue has a regression coefficient of 0.000000722 with a probability value lower than 0.05. This result indicates that PAD has a positive and significant effect on the financial performance of district and municipal governments in Aceh Province. The greater the local government's ability to increase PAD, the higher the level of regional financial independence.

This finding supports fiscal decentralization theory, which states that increased revenue derived from regional potential strengthens local governments' fiscal capacity. This result is also consistent with research by Maharani et al. (2024) and Hutauruk (2024), who found that PAD has a positive effect on local government financial performance.

b). Effect of Capital Expenditure on Financial Performance

Capital Expenditure obtained a regression coefficient of −0.0000000549 with a probability value of 0.0000, indicating a negative and significant effect on local government financial performance. This result shows that the increase in capital expenditure during the study period has not yet been able to improve local government financial performance.

This condition indicates that capital expenditure allocation in several district and municipal governments in Aceh Province has not fully generated economic benefits that could enhance fiscal independence. The low effectiveness of budget absorption and the not-yet-optimal utilization of regional assets are presumed to be the causes of this negative relationship.

c). Effect of SiLPA on Financial Performance

The test results show that SiLPA has a regression coefficient of −0.0000000352 with a probability value of 0.1618 (> 0.05). Therefore, SiLPA has no significant effect on local government financial performance. This result indicates that the magnitude of SiLPA

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cannot yet be used as an indicator that directly influences local government financial performance. A high SiLPA value more likely reflects a remaining budget balance at year-end rather than the local government's ability to improve fiscal independence. This finding is consistent with research by Putri and Ratnawati (2023), which stated that SiLPA has no significant effect on local government financial performance.

d). Coefficient of Determination

The coefficient of determination test results show an Adjusted R-Square value of 0.985149. This value indicates that Local Own-Source Revenue, Capital Expenditure, and SiLPA together can explain 98.51% of the variation in local government financial performance, while the remaining 1.49% is influenced by other variables outside the research model.

This study provides empirical evidence that Local Own-Source Revenue is the most consistent factor in improving the financial performance of district and municipal governments in Aceh Province, while Capital Expenditure actually shows a negative effect, indicating that increased spending allocation has not always been followed by improved effectiveness in regional financial management. In addition, SiLPA was not shown to affect financial performance, indicating that the magnitude of the remaining budget more reflects the quality of budget implementation than the fiscal capacity of local governments.

The novelty of this study lies in the simultaneous testing of the effects of Local Own-Source Revenue, Capital Expenditure, and SiLPA on the financial performance of district and municipal governments in Aceh Province using panel data for the 2021–2024 period, a post-pandemic period reflecting the phase of regional fiscal recovery. This finding enriches the literature on regional financial management by showing that improvements in financial performance depend not only on the magnitude of the budget disbursed, but also on the local government's ability to optimize own-source revenue and improve the effectiveness of regional expenditure management.

RESEARCH DISCUSSION

A. Effect of Local Own-Source Revenue on Local Government Financial Performance

The test results show that Local Own-Source Revenue (PAD) has a positive and significant effect on the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period. This is indicated by a regression coefficient

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of 0.000000722 with a probability value of 0.0000, so the first hypothesis is accepted. This finding indicates that an increase in PAD can improve local government financial performance as measured by the financial independence ratio.

Empirically, an increase in PAD reflects the increasingly optimal ability of local governments to tap local economic potential through local tax revenue, regional levies, proceeds from the management of separated regional assets, and other legitimate local revenue. This increased revenue strengthens the fiscal capacity of local governments, thereby reducing dependence on central government transfer funds. This condition encourages an increase in regional financial independence in financing the administration of government, public services, and regional development.

This result is in line with Agency Theory, which explains that local governments, as agents, are responsible for managing public resources effectively to fulfill the interests of the public as the principal. Optimizing PAD is one form of government accountability in strengthening regional fiscal capacity so that it can provide better public services.

This finding is also consistent with research by Maharani et al. (2024) and Hutauruk (2024), which concluded that Local Own-Source Revenue has a positive effect on local government financial performance. The greater the contribution of PAD to total regional revenue, the higher the local government's ability to achieve fiscal independence.

B. Effect of Capital Expenditure on Local Government Financial Performance

The test results show that Capital Expenditure has a negative and significant effect on local government financial performance. The regression coefficient of −0.0000000549 with a significance level of 0.0000 indicates that an increase in Capital Expenditure is actually followed by a decrease in the level of regional financial independence. Therefore, the second hypothesis, which states a positive effect, cannot be accepted. This result indicates that the increase in Capital Expenditure allocation during the study period has not been able to improve the fiscal capacity of local governments. Most Capital Expenditure is used for the construction of infrastructure, buildings, roads, networks, and other fixed assets that provide long-term benefits. Therefore, the economic benefits of these investments have not been fully reflected in an increase in Local Own-Source Revenue during the observation period.

In addition, high Capital Expenditure is not necessarily followed by effective management of regional assets. If development has not yet resulted in increased economic activity or regional revenue, then such expenditure may actually increase the

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budget burden without improving the local government's ability to finance its needs independently.

This result does not fully support Agency Theory, since local governments, as agents, have not been able to optimally manage Capital Expenditure to improve public welfare while also strengthening fiscal independence. This finding is consistent with research by Hastuti and Nasution (2024) and Hutauruk (2024), which stated that Capital Expenditure has a negative effect on local government financial performance.

C. Effect of SiLPA on Local Government Financial Performance

The test results show that SiLPA has a regression coefficient of −0.0000000352 with a probability value of 0.1618, indicating no significant effect on local government financial performance. Therefore, the third hypothesis is rejected. This finding indicates that the magnitude of SiLPA does not directly reflect an improvement in the local government's ability to manage its finances. SiLPA more likely reflects a remaining budget at year-end, which may arise from low budget absorption, delays in program implementation, or suboptimal budget planning. Therefore, a high SiLPA does not necessarily indicate improving regional financial conditions.

From the perspective of regional financial management, SiLPA should remain at a reasonable level, as it reflects the balance between budget planning and realization. If the amount of SiLPA is too large, this condition actually indicates that development programs have not been fully implemented optimally, so that the benefits of the budget have not been fully felt by the public.

This result also shows that Agency Theory cannot yet fully explain the relationship between SiLPA and local government financial performance. Although local governments are responsible for managing budgets effectively, a high SiLPA does not always reflect successful financial management, but may instead indicate that budget implementation has not been optimal. This finding is consistent with research by Putri and Ratnawati (2023), which concluded that SiLPA has no significant effect on local government financial performance.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study aims to analyze the effect of Local Own-Source Revenue (PAD), Capital Expenditure, and Budget Surplus (SiLPA) on the financial performance of district and municipal governments in Aceh Province during the 2021–2024 period. The results show

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that Local Own-Source Revenue (PAD) has a positive and significant effect on local government financial performance. This finding indicates that an increase in PAD can strengthen local fiscal capacity, enabling governments to better finance governance administration, development, and public services independently.

Conversely, Capital Expenditure has a negative and significant effect on local government financial performance. This result indicates that the increase in Capital Expenditure during the study period has not been followed by an improvement in fiscal independence, since the benefits of local government investment remain long-term in nature and have not been fully able to increase regional revenue. Meanwhile, SiLPA has no significant effect on local government financial performance. This finding indicates that the magnitude of SiLPA reflects the quality of budget implementation more than the local government's ability to improve financial performance.

Overall, this study confirms that improving local government financial performance is determined not only by the size of the budget, but also by the local government's ability to optimize sources of Local Own-Source Revenue and improve the effectiveness of regional expenditure management. The results of this study provide an empirical contribution to the development of public sector financial studies and serve as a consideration for local governments in formulating more effective financial management policies oriented toward improving fiscal independence.

Limitations

This study has several limitations that should be considered when interpreting the results. First, the study was conducted only on district and municipal governments in Aceh Province during the 2021–2024 period, so the results cannot yet be generalized to local governments in other provinces with different fiscal characteristics. Second, the study uses only three independent variables—Local Own-Source Revenue, Capital Expenditure, and SiLPA—so there remain other factors that potentially influence local government financial performance, such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), the level of fiscal independence, and the effectiveness of regional revenue management. Third, the relatively short observation period has not yet been able to fully capture the long-term dynamics of changes in local government financial performance, particularly following the post-pandemic economic recovery period.

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Recommendations

Based on the research results, future studies are recommended to expand the scope of the research object by involving local governments from various provinces in Indonesia so that the results have a better level of generalization. In addition, future research can use a longer observation period and add other relevant variables, such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), the level of effectiveness of regional revenue, or other financial ratios, so that the research model becomes more comprehensive.

In addition, future research may also consider using more diverse analytical approaches suited to the characteristics of the data and research objectives, such as Dynamic Panel Data (Generalized Method of Moments/GMM), Structural Equation Modeling (SEM), or a longitudinal approach to gain a deeper understanding of the factors influencing local government financial performance. From a practical standpoint, local governments are expected to continue optimizing the potential of Local Own-Source Revenue, improving the effectiveness of Capital Expenditure, and improving the quality of budget planning and implementation so that the remaining budget (SiLPA) can be minimized and regional financial management becomes more effective, efficient, and oriented toward improving fiscal independence.

Author Contribution

All authors contributed significantly to this research. Contributions included research conceptualization, development of the theoretical framework, data collection, data analysis, interpretation of results, manuscript writing, scientific revision, and final approval of the manuscript to be published. All authors have read and approved the final version of the article.

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