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THE INFLUENCE OF FINANCIAL GOVERNANCE ON FINANCIAL PERFORMANCE OF CITY/REGENCY GOVERNMENTS IN CENTRAL JAVA 2021-2025

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Abstract

Fiscal dependency in Indonesia remains high, as central government transfers continue to dominate regional development funding. Central Java is the province with the lowest level of financial independence on the island of Java, signaling an urgent need for an evaluation of financial governance. This study aims to examine the effects of local revenue, capital expenditure, and budget surplus on local government financial performance, with Gross Regional Domestic Product (GRDP) serving as a control variable. Utilizing secondary data from 2021 to 2025, the study employs panel data regression methods using the FEM, REM, and CEM models. The results indicate that local revenue has a positive effect on financial performance, while capital expenditure, budget surplus, and GRDP have a negative effect on financial performance. The implications of this study emphasize the need for policymakers in Central Java to restructure capital expenditure to be more productive and to intensify local revenue collection. Furthermore, local governments must evaluate cash management strategies to minimize excessive budget surpluses, ensuring efficient budget absorption to strengthen sustainable regional financial capacity.

Keywords: Local own-source revenue, Capital Expenditure, Budget Surplus, GRDP, and Financial Performance.

INTRODUCTION

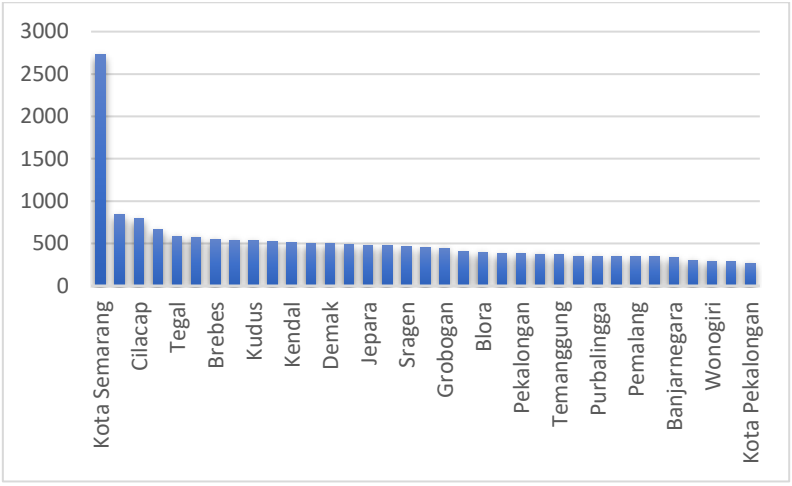
Regional autonomy is a constitutional right that grants local governments the authority to independently establish local regulations and to formulate as well as execute regional financial management policies. In practice, local governments play a central role in supporting national development through effective fiscal management. However, various issues regarding financial performance have arisen, one of which is fiscal dependency on central transfers to fund regional development. Based on data from the Ministry of Finance (2025) more than 60 percent of total local government budget in Indonesia comes from central government transfers. This condition is presented in the table below.

Table 1. Average of Regional Financial Independence Ratio in Java Island (2021-2025)

Number	Province	Average of Regional Financial Independence Ratio
1	DKI Jakarta	2,0051
2	Banten	0,9408
3	West Java	0,6106
4	**Central Java**	**0,4708**
5	East Java	0,5152
6	DI Yogyakarta	0,4890

Source: Directorate General of Fiscal Balance (processed).

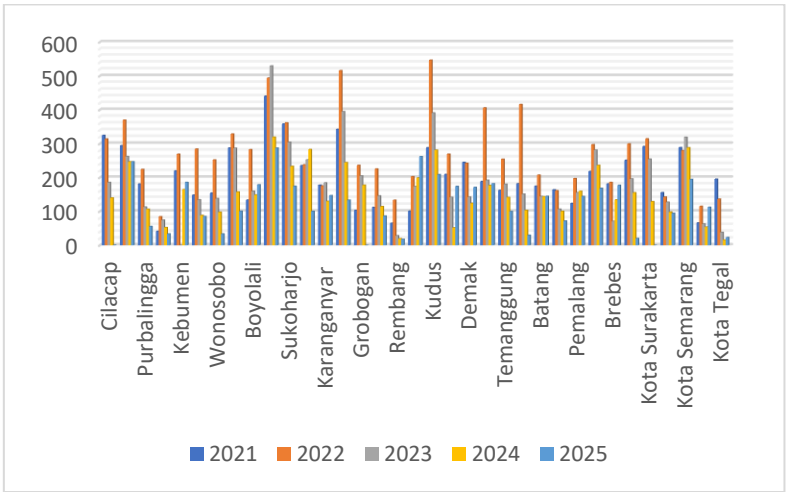
Based on Table 1. Central Java recorded as the province with the lowest level of fiscal independence in Java Island at 0,4708. This is due to the fact that Central Java's economy is still dominated by agricultural sector and small to medium scale labor-intensive industries, which do not generate a significant local tax base (Regional Fiscal Study of Central Java, 2021).



Source: Directorate General of Fiscal Balance (processed).

Figure 1. Average of Financial Independence Ratio for City/Regency in Central Java Province (2021–2025)

Based on Figure 1. it can be seen that the average fiscal independence ratio across cities and regencies in central Java over the past five years (2021-2025) reveals a considerable different condition. To improve financial performance, local governments will seek to maximize local own-source revenue from previous periods in order to enhance the region's capacity to finance governmental activities independently (Syafelina & Arza, 2025). Semarang City stands as a sole region with a ratio at 1,131 indicating the only region capable to funds its regional expenditures independently. This condition is supported by Semarang's local own-source revenue, which is also the highest in Central Java, with an average revenue of 2.726,13 billion. This condition enables the local government to independently implement a regional development program (Saputra & Kurniawati, 2026). Similarly, in terms of capital expenditure, Semarang City recorded the highest level of spending, with an average annual expenditure at 1000 billion. This indicates that disparities of regional revenue capacity, which consequently affect the ability of local government to fund capital expenditure.



Source: Directorate General of Fiscal Balance (processed).

Figure 2. Status of Budget Surplus for City/Regency in Central Java Province (2021–2025)

As shown in Figure 2. show a fluctuating trend, reflecting substantial disparities in budget surplus across regions. Kudus Regency recorded one of the highest budget surplus values, reaching 546,56 billion in 2022. This condition was attributed to low realization of the Tobacco Excise Revenue Sharing Fund (DDBCHT) during that year. In addition, regional financial performance may also be influenced by Gross Regional Domestic Product (GRDP). This variable reflects economic growth and serves as an indicator for assessing economic development and the structure of a region. An increase in GRDP may encourage higher regional revenue, particularly from sources of local own-source revenue (Nurhayati, 2017).

Based on the background, the author identified a research gap reflected in the disparities of regional revenues and expenditures among regencies, which have led to inequalities in regional financial independence. In addition, the large budget surplus indicates ineffective financial management and suboptimal budget utilization within local government. Unlike previous study, the novelty of this research is the integration of fiscal governances variables, namely local own-source revenue (PAD), capital expenditure and budget surplus as a proxy for managerial effectiveness in post-pandemic fiscal restructuring during 2021-2025. In addition, GRDP is employed as a control variable to capture regional economic conditions. Theoretically, this study aims to enrich the regional finance literature by examining the relationship among fiscal governance instruments within a single empirical framework. Practically, the findings are expected to provide policy recommendations for strengthening regional fiscal independence, improving the quality of capital expenditure, and enhancing budget management efficiency.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Local Financial Performance

Government financial performance can be defined as a region's ability to collect and manage local financial resources to meet its needs and support the functioning of the government system and public services, without relying on the central government in the development process. Rahmadhanty & Firmansyah (2025) explain that the financial performance of local government reflects their ability to manage budgets effectively to support development and improve public welfare, with fiscal autonomy serving as a benchmark for the extent to which development programs and local spending needs can be funded from local own-source revenue without excessive reliance on external funds. (Mahmudi, 2019) notes that the financial performance of local governments can be analyzed using various ratios, one of which is the financial independence ratio.

Local own-source revenue

Local own-source revenue consists of funds received by a local government in accordance with the law. According to Law No. 23 of 2014, Article 285(1), local own-source revenue is defined as the region's authorized revenue rights that serve to increase the value of its assets, consisting of local taxes and retributions, separated management of regional wealth, and other legitimate local own-source revenue. Local own-source revenue explains improvements in financial performance. This is supported by the findings of a study by Saputra & Kurniawati (2026), which found that local own-source revenue has a significant positive effect on the financial performance of regencies and cities in Central Java Province. The greater a region's ability to maximize its local own-source revenue, the more it can minimize its reliance on central government transfers (Amanda & Praptoyo, 2023).

H_1: *Local own-source revenue has a significant positive effect on the Local Financial Performance of regencies/cities in Central Java.*

Capital Expenditures

According to government Regulation No. 71 of 2010, capital expenditures are local government expenditures whose benefits extend beyond a single fiscal year and which will increase local assets or wealth, thereby increasing routine expenditures such as maintenance costs under the general administration expenditure category. Besides local revenue factors, financial

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performance can also be influenced by the structure of local expenditures, particularly through capital expenditures. Megasari (2025) found that capital expenditures have a positive and significant impact on the financial performance of local governments across all provinces in Indonesia. A case study of Ireland by Turley et al. (2020) found that capital expenditure accounts for improvements in government financial performance.

H_2: *Capital Expenditure has a significant positive effect on the Local Financial Performance of regencies/cities in Central Java.*

Budget Surplus

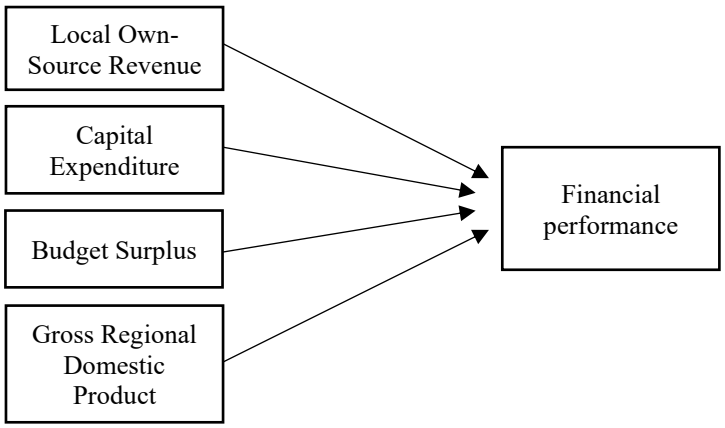
Budget surplus is the difference between actual revenue and financing receipts on one hand, and actual expenditures and financing outlays on the other, within a single budget period. The ideal budget surplus amount serves as one of the bases for evaluating the implementation of local government programs or activities (Afkarina & Hermanto, 2017). Several studies indicate that the budget surplus can have a negative impact on local financial performance. Ratnasari & Meirini (2022) found that financial performance is negatively influenced by budget surplus. This aligns with a study by Djuniar & Zuraida (2018) which states that a smaller budget surplus amount in a financial report indicates that funding is used efficiently to funds activities and cover deficits, thereby ensuring no funds go unused.

H_3: *Budget Surplus has a significant and negative effect on the Local Financial Performance of regencies/cities in Central Java.*

Gross Domestic Regional Product (GRDP)

BPS (2024)explains that GRDP at Current Prices (ADHB) represents the value of value added in goods and services, calculated using prices from a specific year as the basis. In this study, the researcher uses GRDP at Current Prices as a control variable to ensure consistency in nominal data across macroeconomic variables and local government financial variables. A high GRDP value indicates significant economic resources, and vice versa (BPS, 2024). GRDP served as a control variable that reflects the overall structure of the economy. An increase in GRDP contributes to an increase in the source of local own-source revenue (Nurhayati, 2017). This increase in GRDP reflects the community's ability to pay taxes and other levies, which serve as sources of local own-source revenue.

H_4: *Gross Regional Domestic Product has a positive significant effect on the Local Financial Performance of regencies/cities in Central Java.*



RESEARCH METHODS

This study uses secondary data, which is data obtained indirectly from other source and available in official publications, including from the Central Bureau of Statistics and Directorate General of Fiscal Balance. This data contains quantitative information in the form of figures for the variables of Financial Performance, Local own-source revenue, Capital Expenditures, Budget

Surplus, and Gross Domestic Regional Product, which will be processed using the statistical analysis tools Eviews 13 and Microsoft Excel 2021 to support further analysis.

Multiple linear regression analysis using panel data was employed to identify the partial and simultaneous effects of the independent variables on the dependent variable. This model combines time-series and cross-sectional data analysis. These variables were analyzed using time series data from 2021 to 2025 and cross-sectional data from 35 regencies/cities in Central Java Province. In this study, the data was transformed into logarithms (Ln). This transformation were applied so that resulting coefficients could be interpreted as variable elasticities. The model can be formulated as follows:

$FP_{it} = \beta_0 + \beta_1 Ln\_LOSR_{it} + \beta_2 Ln\_CE_{it} + \beta_3 Ln\_BS_{it} + \beta_4 Ln\_GRDP_{it} + e_{it}$.

Notes:

FP = Financial performance
LOSR = Local Own-Source Revenue
CE = Capital Expenditure
BS = Budget Surplus
GRDP = Gross Regional Domestic Product
β_0 = Constanta
$\beta_{1,2,3}$ = Coefficient
i = 35 cities/regencies
t = year 2021-2025

This study uses CEM, FEM, and REM model testing to determine which model is the best. In selecting a regression model, estimation tests were conducted, namely the Chow Test, the Hausman Test, and the Lagrange Multiplier test. To validate the regression results, classical assumption tests were performed. In panel data analysis, not all classical assumption tests are applied to data that combine cross-sectional and time series data. This because panel data combines the time and individual dimensions, thereby reducing most issues related to normality and autocorrelation. This is supported by Widarjono in Napitupulu (2021), who states that in panel data analysis, only multicollinearity and heteroscedasticity are tested. Once the model passes classical assumption tests, further analysis is conducted by calculating coefficients of determination (R^2) and hypothesis test, such as F-test and t-test.

RESULTS AND DISCUSSION

Table 2. Result of Statistic Descriptive.

No	Variable	N	Min.	Max.	Mean	Std. Deviation
1	Financial Performance	175	0,1188	1,4478	0,2972	0,1811
2	LOSR	175	5,4609	8,1296	6,1159	0,4359
3	Capital Expenditure	175	3,6082	7,0066	5,4241	0,5962
4	Budget Surplus	175	-0,5978	6,3036	4,8480	1,2328
5	GRDP	175	9,1246	12,5708	10,5620	0,6166

Source: Eviews 13 estimation result (prosseced).

Based on the results of the descriptive statistical analysis presented in Table 2. the variables can be described as follows:

The financial performance variable has a minimum value of 0.1188 and a maximum value of 1.4478. The standard deviation is 0.1811, which is lower than the mean value of 0.2972. This indicates that the dispersion of the financial performance data is relatively low, suggesting that the data are fairly homogeneous.

The Local own-source revenue variable has a minimum value of 5.4609 and a maximum value of 8.1296. The standard deviation is 0.4359, which is lower than the mean value of 6.1159. This indicates that the dispersion of the LOSR data is relatively low, implying that the data are relatively homogeneous.

The capital expenditure variable has a minimum value of 3.6082 and a maximum value of 7.0066. The standard deviation is 0.5962, which is lower than the mean value of 5.4241. This suggests that the dispersion of the capital expenditure data is relatively low, indicating a homogeneous distribution of observations.

The budget surplus variable has a minimum value of −0.5978 and a maximum value of 6.3036. The standard deviation is 1.2328, which is lower than the mean value of 4.8480. This indicates that the dispersion of the budget surplus data is relatively low, suggesting that the observations are relatively homogeneous.

The GRDP variable has a minimum value of 9.1246 and a maximum value of 12.5708. The standard deviation is 0.6166, which is lower than the mean value of 10.5620. This indicates that the dispersion of the GRDP data is relatively low, implying that the data are relatively homogeneous.

The use of the Chow test is carried out to determine the most appropriate model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM).

Table 3. Result of Chow Test.

Effect Test	Statistic	d, f	Prob.
Cross-section F	37,6587	(34, 136)	0,0000
Cross-section Chi-square	410,0630	34	0,0000

Source: Eviews 13 estimation result (processed).

From Table 3. the Chi-Square probability value is 0.0000 < 0.05. Therefore, it can be concluded that the best model in this study is FEM, and the analysis proceeds to the Hausman test.

The use of the Hausman test is carried out to determine the most appropriate model between the the Common Effect Model (CEM) and the Random Effect Model (REM).

Table 4. Result of Hausman Test.

Test Summary	Chi-Sq. Statistic	Chi-Sq. d, f	Prob.
Cross-section random	17.907453	4	0,0003

Source: Eviews 13 estimation result (processed).

From Table 4. the probability value for the random cross-section test is 0.0003 < 0.05. Therefore, it can be concluded that the FEM model is the most appropriate model, and testing does not need to proceed to the LM test.

Next, the classical assumption test. These tests aim to verify that the estimated regression coefficients are free from bias. The procedures applied are presented as follows:

Table 5. Result of Multicollinearity Test.

Correlation				
	Ln_PAD	Ln_CE	Ln_SiLPA	Ln_GRDP
Ln_PAD	1,0000	0,4429	0,0300	0,8097
Ln_CE	0,4429	1,0000	0,4305	0,5080
Ln_SiLPA	0,0300	0,4305	1,0000	0,1469
Ln_GRDP	0,8097	0,5080	0,1469	1,0000

Source: Eviews 13 estimation result (processed).

Based on the test results in Table 5. the correlation coefficients between the independent variables are all less than 0.85. Therefore, it can be concluded that this model is free from multicollinearity problems.

Table 6. Result of Heteroscedasticity Test.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0,2085	0,2333	-0,8934	0,3732
Ln_PAD	0,0303	0,0158	1,9133	0,0578

Ln_CE	0,0013	0,0063	0,2205	0,8258
Ln_SiLPA	-0,0024	0,0020	-1,1490	0,2526
Ln_GRDP	-0,0044	0,0220	0,2032	0,8392

Source: Eviews 13 estimation result (processed).

Based on the test results in Table 6. the p-values for all variables are ≥ 0.05. Therefore, it can be concluded that this model is free from from heteroscedasticity problems.

Table 7. Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0,5493	0,3921	-1,4008	0,1635
Ln_PAD	0,2068	0,0266	7,7740	0,0000
Ln_CE	-0,0273	0,0106	-2,5718	0,0112
Ln_SiLPA	-0,0083	0,0035	-2,3795	0,0187
Ln_GRDP	-0,0217	0,0370	-0,5878	0,5576
R-squared	0,9609			
Adj. R-squared	0,9500			
F-statistic	0,0000			
Prob. (F-statistic)	0,0000			

Source: Eviews 13 estimation results (processed)

Based on Table 7. The regression equation is as follows:

$$\widehat{FP}_{it} = -0{,}5493 + 0{,}2068\ LOSR_{it} - 0{,}0273\ CE_{it} - 0{,}0083\ BS_{it} - 0{,}0217\ GRDP_{it}$$

From above equation, the following interpretations can be made:

a. The constant coefficient is -0,5493 means that if the variables local own revenu, capital expenditure, budget surplus and GRDP are 0, then the value of local financial performance is -0,5493 percent.
b. The coefficient of local own revenue is 0,2068 indicating that, holding capital expenditure, budget surplus and GRDP constant, a 1 percent increase in local own-source revenue is associated with an increase of 0,2068 percent in local financial performance.
c. The coefficient of capital expenditure is -0,0273 indicating that, holding local own-source revenue, budget surplus and GRDP constant, a 1 percent increase in capital expenditure is associated with an increase of 0,0273 percent in local financial performance.
d. The coefficient of budget surplus is -0,0083 indicating that, holding local own-source revenue, capital expenditure and GRDP constant, a 1 percent increase in budget surplus is associated with an increase of 0,0083 percent in local financial performance.
e. The coefficient of budget surplus is -0,0217 indicating that, holding local own-source revenue, capital expenditure and budget surplus constant, a 1 percent increase in budget surplus is associated with an increase of 0,0217 percent in local financial performance.

Coefficient of Determination (R^2)

Based on the test results in Table 7. it is found that the coefficient of determination is 0.9609. It can therefore be concluded that 96 percent of the dependent variable financial performance can be explained by the four independent variables: local own-source revenue, capital expenditure, budget surplus and GRDP. The remaining 4 percent is explained by other variables not included in this study.

Hypothesis Testing

a. F Test

Based on Table 6. the F-test results show a probability value (F-statistic) of 0.000000 < 0.05. Therefore, it can be concluded that the variables local own-source revenue, capital expenditure,

budget surplus, and GRDP collectively have a significant effect on regional financial performance.

b. t Test

Information from the regression with an alpha value or significance level of 0,05. The following is the effect caused by each independent variable on the dependent variable:

Local own-source revenue

Local own-source revenue variable has a p-value of 0.0000 < 0.05 and a coefficient of 0.2068. Therefore, H_0 is rejected and H_1 is accepted. It can be concluded that partially local own-source revenue has a significant positive effect on local government financial performance in 35 regencies/cities of Central Java 2021-2025. This phenomenon indicates that any increase in local revenue will be followed by an improvement in local financial performance.

These results indicate that the higher a region's ability to generate local revenue, the better the financial performance of its local government. High local revenue reflects a region's ability to optimize its potential as an independent source of income without relying on transfers from the central or regional governments. This situation indicates that local governments have greater fiscal capacity to fund regional needs, improve public services, and implement development programs more effectively and efficiently. Regions with high local own-source revenue values generally have greater flexibility, allowing for more optimal financial management.

This aligns with the theory of fiscal decentralization, which states that the more regions tap into their potential and develop the capacity to generate their own revenue, the more independent they will be in managing regional development activities and improving the efficiency of financial management. Fiscal decentralization provides local governments with the space to optimize revenue sources through local revenue (PAD) in accordance with regional needs, thereby improving efficiency in the provision of public goods and enhancing community welfare. Saputra & Kurniawati (2026) explain that local own-source revenue can improve the efficiency and effectiveness of local financial management because local governments do not need to rely entirely on transfers from the central government. As local own-source revenue increases, local governments are better able to cover their local expenditures, resulting in improved financial performance (Padang & Padang, 2023).

This study is consistent with research conducted by Saputra & Kurniawati (2026); Amanda & Praptoyo (2023); and Antari & Sedana (2018), which found that local own-source revenue has a positive effect on local government financial performance. These studies explain that an increase in local own-source revenue can strengthen local fiscal capacity, thereby making financial management more effective.

Capital Expenditure

Capital expenditure variable has a p-value of 0.0112 < 0.05 and a coefficient of -0.0273. Therefore, H_1 is rejected and H_0 is accepted. It can be concluded that partially capital expenditure has a significant negative effect on local government financial performance in 35 regencies/cities of Central Java 2021-2025. These findings suggest that an increase in capital expenditures will actually be followed by a reduction in local government financial performance.

This suggests that capital expenditure has not been sufficiently effective in directly improving regional financial performance. In theory, capital expenditure is expected to enhance the quality of infrastructure and public services, which can strengthen regional economic capacity and ultimately contribute to improved financial performance. However, in practice, increasing capital

expenditure often requires substantial financial resources, while its benefits are generally realized only in the long term. Therefore, within the period covered by this study, capital expenditure was not considered sufficiently strong to improve regional financial performance.

The findings of this study contradict the fiscal decentralization theory, which argues that granting expenditure authority to local governments should improve the efficiency of resource allocation. This result may be attributed to the fact that a significant portion of expenditure allocations has not been directed toward productive investments and instead has led to higher maintenance costs. This finding is supported by Mahmudi (2019), who explains that poorly planned capital expenditure can increase budget inefficiency and reduce regional financial efficiency. One of these is that the funds are not allocated to productive assets, the allocation of the budget to productive assets is considered crucial because it will enhance regional capacity, particularly in the financial sector (Safitri et al., 2023)

The results of this study are consistent with those of Antari & Sedana (2018) Safitri et al. (2023), who found that capital expenditure has a negative effect on financial performance. This is because not all capital expenditure activities are capable of directly generating revenue sources for the region (Antari & Sedana, 2018). The success of capital expenditure should not be assessed solely in terms of regional revenue growth, but also in terms of the benefits delivered as expected and the extent to which outputs meet actual needs. Budget allocations for productive assets are considered important because they can enhance regional capacity, particularly in the financial sector (Safitri et al., 2023)

Budget Surplus

Budget surplus variable has a p-value of 0.0187 < 0.05 with a coefficient of -0.0083. Therefore, H0 is rejected and H1 is accepted. It can thus be concluded that, in part, Budget surplus has a significant negative effect on local government financial performance in 35 regencies/cities of Central Java 2021-2025. This phenomenon indicates that any increase in the amount of budget surplus will be followed by a reduction in local government financial performance.

This indicates that the high level of budget surplus reflects the fact that local governments have not been fully effective in implementing their budgets. A high budget surplus indicates that certain programs and activities have not been fully implemented, resulting in the budget not being fully utilized. This situation also indicates low effectiveness in the planning and implementation of local government budgets. High budget surplus values reflect excessive fiscal prudence in budget spending to avoid risky decision-making.

The findings of this study are supported by Agency Theory, which suggests that agents often exhibit risk-averse behavior. In this context, local governments, acting as agents, tend to avoid risks in budget utilization, resulting in lower budget absorption and consequently higher budget surplus values. Excessively high budget surplus may therefore serve as an indicator of poor budget planning quality and weak execution capacity of local governments in managing public funds. Conversely, a lower SiLPA figure in the financial statements indicates that funds have been effectively utilized to finance activities and cover deficits, leaving no unspent funds (Ratnasari & Meirini, 2022).

The results are consistent with the studies conducted by Ratnasari & Meirini (2022); Djuniar & Zuraida (2018); Utami et al. (2022); and Putra (2022), all of which found that Budget surplus has a negative effect on regional financial performance. A lower budget surplus value in financial reports reflects greater efficiency in budget financing and indicates that fewer funds remain unused

(Djuniar & Zuraida, 2018). Conversely, a high budget surplus value reflects low effectiveness in budget absorption, which ultimately reduces the quality of regional financial management.

Gross Domestic Regional Product

GRDP variable has a p-value of 0.5576 > 0.05 with a coefficient of -0.0217. Therefore, H_1 is rejected and H_0 is accepted. It can thus be concluded that, in part, GRDP does not have a significant effect on regional financial performance in 35 regencies/cities of Central Java 2021-2025. These findings suggest that a higher GRDP does not lead to improved local government financial performance.

The results indicate that, in this study, GRDP is not one of the factors influencing regional financial performance. An increase in GRDP does not necessarily lead to an increase in the fiscal capacity of local governments. High economic growth does not automatically translate into stronger fiscal capacity. This phenomenon can be observed in Batang Regency, where economic activity has grown significantly and consistently, increasing from 4.88 percent in 2021 to 7.79 percent in 2025. The region's economy is primarily driven by the industrial sector, which contributes approximately 34 percent of its economic output. Nevertheless, the contribution of local own-source revenue in Batang Regency remains relatively low, with an average annual revenue of IDR 340.658 billion. This condition suggests that economic growth, as reflected by GRDP, has not yet been able to directly influence regional fiscal revenues.

Economic growth within a region may exhibit an inconsistent relationship with regional financial performance; therefore, economic growth does not necessarily affect financial performance (Sunandar, 2023). The findings of this study are consistent with those of Renwarin et al. (2024); Heryanti et al. (2019); and Martantri (2019), who similarly found that economic growth has no significant effect on regional financial performance. GRDP tends to contribute to development across various employment sectors and has the potential to reduce poverty; however, it is considered to have a limited impact on well-being and other social issues beyond poverty levels (Renwarin et al., 2024).

CONCLUSION

This results of this study indicate that local own-source revenue has a positive and significant effect on regional financial performance, indicating that stronger local revenue capacity contributes to better financial performance among the 35 regencies and municipalities in Central Java during the 2021–2025 period. In contrast, capital expenditure and budget surplus have significant negative effects on financial performance, suggesting that higher spending does not necessarily improve financial outcomes when it is not accompanied by effective asset utilization and sound budget execution. Meanwhile, Gross Regional Domestic Product (GRDP) does not have a significant effect on regional financial performance, indicating that economic growth alone is insufficient to strengthen local fiscal capacity. Nevertheless, LOSR, capital expenditure, budget surplus, and GRDP jointly have a significant influence on regional financial performance. These findings imply that local governments should focus on strengthening local revenue sources, improving the quality and productivity of capital expenditure, enhancing budget planning and implementation, and ensuring that economic growth is translated into sustainable fiscal capacity rather than relying solely on increases in regional economic output.

Several limitations should be considered when interpreting the results of this study. First, the analysis is limited to local own-source revenue, capital expenditure, budget surplus, and GRDP, while other factors such as intergovernmental transfers, institutional quality, governance effectiveness, and administrative capacity may also influence regional financial performance.

Second, the study covers the period from 2021 to 2025, which may not fully capture long-term trends and structural changes in regional fiscal management. Future research is therefore encouraged to incorporate additional explanatory variables and longer observation periods to provide a more comprehensive understanding of the determinants of regional financial performance.

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