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# THE IMPACT OF LOCAL REVENUE AND EXPENDITURES ON FINANCIAL PERFORMANCE IN RIAU PROVINCE 2022-2025

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**Abstract**

This study analyzes the influence of Local Own-Source Revenue (PAD), Personal Expenditure, and Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period. The underlying phenomena are PAD growth reaching 70.05 percent but capital expenditure contracting by minus 26.07 percent, revenue realization only 86.7 percent of the target, operating expenditure dominance of 89.09 percent, and APBD deficits in five regencies. This study uses secondary data from 12 regencies or cities, resulting in 48 observations. Analysis includes descriptive statistics, classical assumption tests, multiple linear regression, t-test, F-test and coefficient of determination using SPSS Version 25. The results show that simultaneously the three variables have a significant effect on financial performance with a contribution of 26.6 percent. Partially, PAD has a significant negative effect ($t = -2.799$, sig. 0.008), personal expenditure has no significant effect ($t = -0.130$, sig. 0.897), while capital expenditure has a significant positive effect ($t = 3.265$, sig. 0.002). Local governments need to improve revenue and capital expenditure realization and streamline personnel expenditure.

## 1. INTRODUCTION

### Background Problem

The implementation of regional autonomy provides full authority to local governments to regulate and manage their own finances, including efforts to generate Local Own-Source Revenue (PAD), allocate personnel expenditure, and plan capital expenditure. With regional autonomy in district/city governments, financial management is entirely in the hands of the region itself and is outlined in the Regional Budget (APBD) which describes the local government's ability to finance the implementation of development tasks [1]. Performance can be understood as a description of the results obtained from the implementation of a program or activity, as well as the strategies and policies applied to achieve the goals, objectives, vision, and mission of an organization [2].

Riau Province, which holds the status as the sixth largest province in terms of Gross Regional Domestic Product (GRDP) nationally with a contribution of approximately 5.14 percent to the Indonesian economy, faces distinctive fiscal challenges. These challenges include an economic structure that is highly dependent on volatile natural resources, disaster risks such as forest fires and floods, and logistical obstacles such as the collapse of the connecting bridge to the Tanjung Buton Port pier in Siak Regency [3].

Throughout the 2022 to 2025 period, the dynamics of financial management in districts/cities throughout Riau Province have shown various interesting phenomena. Based on a report by Bisnis.com on January 20, 2026, as cited by Gunawan, the Regional Secretary of Riau Province, Syahrial Abdi, stated that the main challenge for the region is no longer economic potential, but rather the limited regional fiscal capacity. This is evidenced by the realization of Riau Province's regional revenue in 2025, which only reached 86.7 percent of the target, while capital expenditure realization was only about 50 percent of the plan [3]. The latest data from the Regional Office of the Directorate General of Treasury (DJPb) of Riau Province, as cited on djpb.kemenkeu.go.id on May 25, also confirms a similar situation where although Local Own-Source Revenue (PAD) grew very rapidly at 70.05 percent annually in response to the reduction in Transfer to Regions allocations, capital expenditure actually contracted by minus 26.07 percent [4]. On the other hand, operating expenditure still dominates the APBD with a share reaching 89.09 percent, indicating that personnel expenditure and other routine expenditures remain the main burden [3].

This condition creates several gaps for the researcher to develop. First, the very high increase in PAD is not followed by an increase in capital expenditure, which actually decreased drastically. Second, the dominance of personnel expenditure in the APBD structure has the potential to narrow the fiscal space for infrastructure development and public services. Third, there is a contradiction between the APBD surplus at the provincial level and the deficits experienced by five regencies, namely Rokan Hilir, Rokan Hulu, Kepulauan Meranti, Kuansing, and Pelalawan, which has even caused delays in regional payment obligations [3]. Literature review supporting this research, in the study by Khrisnadewi & Praptiestrini in Central Java, PAD and capital expenditure had a significant effect on financial performance, but personnel expenditure did not [1]. In the study by Eryana et al. in Bali, PAD had a significant effect but capital expenditure did not [5]. Meanwhile, the research by Suparlan et al. in NTB found that personnel expenditure proved to be the dominant factor in determining the amount of transfers to regions [6].

Based on these phenomena and gaps, this study aims to analyze the Influence of Local Own-Source Revenue, Personnel Expenditure, and Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 Period.

### Problem Formulation

Based on the phenomena described in the background, particularly regarding the gap between the high growth of Local Own-Source Revenue (PAD) and the declining realization of capital expenditure, as well as the continued dominance of personnel expenditure in the APBD structure of Riau Province, the main problems in this study are formulated as follows:

1. Does Local Own-Source Revenue (PAD) partially affect the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period?
2. Does Personnel Expenditure partially affect the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period?
3. Does Capital Expenditure partially affect the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period?
4. Do Local Own-Source Revenue (PAD), Personnel Expenditure, and Capital Expenditure simultaneously affect the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period?

**Research Purposes**

Referring to the formulated problems, this study is essentially conducted to empirically examine and analyze the determinants of local government financial performance. Specifically, the objectives of this research are:

1. To analyze the influence of Local Own-Source Revenue (PAD) on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period.
2. To analyze the influence of Personnel Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period.
3. To analyze the influence of Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period.
4. To analyze the simultaneous influence of Local Own-Source Revenue (PAD), Personnel Expenditure, and Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period.

## 2. LITERATURE REVIEW

**Agency Theory**

Based on Jensen & Meckling (1976) as cited in Fadilah, the agency relationship is a contract between the principal and the agent that includes the delegation of decision-making authority to the agent [2]. Classical agency theory emphasizes formal control mechanisms such as contracts, economic incentives, and external supervision to minimize agency conflicts [7]. According to Siagan as cited in Fiqrihandini & Rahmawati, agency theory is a relationship or contract between the principal and the agent where the principal employs the agent to perform tasks for the principal's benefit, including the delegation of decision-making authority from the principal to the agent [8].

This theory relates to this research by explaining how the government as an agent manages the financial performance of local governments, and the community as the principal mandates the government to manage existing resources for the benefit of the region.

**Financial Management**

According to Sundjaja and Barlian as cited in Fauzan & Rusdiyanti, financial management is "management related to the duties of a financial manager in a business enterprise. Financial managers actively manage the financial affairs of various types of businesses, related to financial or non-financial, private or public, large or small, profit or non-profit. They carry out various activities, such as budgeting, financial planning, cash management, credit administration, investment analysis, and efforts to obtain funds [9]."

According to Dewi Utari as cited in Pasha et al., financial management is planning, organizing, implementing, and controlling the procurement of funds at the lowest possible cost and using them effectively and efficiently for the organization's operational activities [10].

**Local Government Financial Performance**

According to Pratiwi as cited in Putri et al. local government financial performance is the result of measurement in seeing the condition of achieving financial management in the implementation of activities to realize the vision and mission of the local government [11]. In the Regulation of the Minister of Home Affairs Number 13 of 2006 concerning Guidelines for Regional Financial Management, as cited in Hoerunnisa & Dailibas (2026), it is explained that "local government financial performance is the output or result of activities or programs that will be or have been achieved in connection with the use of the budget with measurable quantity and quality [12].

**Local Own-Source Revenue (PAD)**

According to Putri et al., Local Own-Source Revenue is a source of regional revenue that is explored based on the potential of the region in accordance with applicable laws and regulations [11]. According to Khrisnadewi & Praptiestrini financial sources originating from Local Own-Source Revenue are more important than those originating from outside Local Own-Source Revenue. Sources of PAD consist of: Regional Taxes, Regional Retributions, Results of Separated Regional Wealth Management, and other legitimate PAD [1]. According to the Regulation of the Minister of Home Affairs Number 27 of 2021 concerning Guidelines for the Preparation of Regional Revenue and Expenditure Budgets for the 2022 Fiscal Year, it is explained that "Local Own-Source Revenue is revenue obtained by the region in accordance with the provisions of laws and regulations by taking into account the policies that have been established [12].

**Personnel Expenditure**

Based on the Regulation of the Minister of Home Affairs No. 6 of 2021, personnel expenditure is expenditure used to budget compensation given to regional heads/deputy regional heads, leaders/members of the regional people's representative council, and state civil apparatus employees determined in accordance with the provisions of laws and regulations [6]. Personnel expenditure refers to the budget allocated to pay salaries, allowances, and apparatus for civil servants, pensioners, and honorary employees working within the government environment [13]. Personnel expenditure is an important component in the local government budget, which directly affects government performance and the quality of public services [14].

**Capital Expenditure**

According to Government Regulation No. 71 of 2010 concerning Government Accounting Standards, as cited in Hoerunnisa & Dailibas , Capital Expenditure is local government expenditure whose benefits exceed one fiscal year and will add to regional assets or wealth and will subsequently add to routine expenditures such as maintenance costs in the general administration expenditure group [12]. Capital expenditure is expenditure made in the context of capital formation that adds to fixed assets or other assets that provide benefits for more than one accounting period [1].

**Previous Relevant Research**

Several previous studies have examined the influence of PAD, personnel expenditure, and capital expenditure on local government financial performance. Research by Khrisnadewi & Praptiestrini in Central Java found that PAD and capital expenditure significantly affect financial performance, but personnel expenditure does not [1]. In Bali showed that PAD has a significant effect, but capital expenditure does not affect financial performance [5]. Meanwhile, research by Suparlan et al. in NTB found that personnel expenditure is the dominant factor determining the amount of transfers to regions [6].

Research in D.I. Yogyakarta showed that PAD, balancing funds, and capital expenditure simultaneously affect local government financial performance, with capital expenditure having a positive and significant effect [11]. Similarly research in West Java found that PAD and capital expenditure significantly affect financial performance, both partially and simultaneously [12].

These findings indicate that the influence of PAD, personnel expenditure, and capital expenditure on local government financial performance varies across regions and periods, depending on the characteristics of fiscal management in each region.

**Research Framework**

The conceptual framework in this study is developed as a foundation to analyze the influence of Local Own-Source Revenue (PAD), Personnel Expenditure, and Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period. This research is based on secondary data obtained from the Ministry of Finance's website, which is then analyzed using multiple linear regression analysis. The results of this analysis are used to assess the extent to which the independent variables influence the dependent variable.

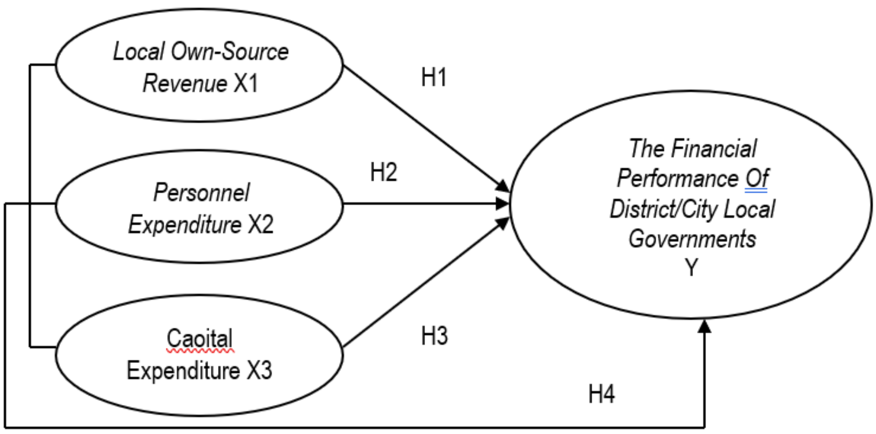


**Figure 1. Research Framework**

Source: Data processed by the author, 2026

## 3. RESEARCH METHOD

### Types and Approaches of Research

This study employs a quantitative approach with a causal research design. The quantitative approach is chosen because this study seeks to measure phenomena objectively and produce findings that can be statistically analyzed. Causal research is used to explain the causal relationship between independent variables, namely Local Own-Source Revenue (PAD) ($X_1$), Personnel Expenditure ($X_2$), and Capital Expenditure ($X_3$), and the dependent variable, namely Local Government Financial Performance (Y). Through this approach, the study is expected to provide empirical evidence regarding the extent to which the independent variables influence the dependent variable in the context of local government financial management.

### Research Population

The research population refers to all subjects that possess certain characteristics relevant to the focus of the study. The population in this research includes all districts/cities in Riau Province, totaling 12 regions. The data used consists of reports on Regional Revenue and Expenditure Budgets and Budget Realization Reports for the 2022-2025 period. Considering the relatively small population size, the entire population is designated as the sample by applying a saturated sampling technique (full sampling) without excluding any data or extreme values (outliers).

### Data Types and Sources

The data type in this study is quantitative with a panel data structure, which is a combination of time series data from 2022 to 2025 and cross-section data covering twelve districts/cities, resulting in a total of 48 observation units. The data used is secondary data sourced from the documentation of the Regional Revenue and Expenditure Budget Report and Budget Realization Report, which can be accessed through the Ministry of Finance's website (https://djpk.kemenkeu.go.id).

### Sample and Sampling Technique

1) Research Sample

   The sample is a subset of the population selected to represent the entire population. The sample in this study consists of 12 districts/cities in Riau Province that have complete financial report data for the 2022-2025 period. Considering that the population size is relatively small (12 districts/cities), this study uses a saturated sampling technique (*total sampling*), meaning all population members are included as samples. This approach was chosen because the population is less than 30 and all members meet the research criteria, resulting in a total of 48 observation units (12 districts/cities × 4 years).

2) Sampling Technique

   The sampling technique used is purposive sampling (judgmental sampling), which involves selecting samples based on specific criteria. The criteria for sample selection are as follows:
   a) Districts/cities that have complete financial report data for the 2022-2025 period.
   b) Districts/cities that have published Regional Revenue and Expenditure Budget (APBD) reports and Budget Realization Reports accessible through the official Ministry of Finance website (https://djpk.kemenkeu.go.id).
   c) Districts/cities that have complete data on Local Own-Source Revenue (PAD), Personnel Expenditure, Capital Expenditure, and Local Government Financial Performance indicators.

Based on these criteria, all 12 districts/cities in Riau Province meet the requirements and are included as the research sample, namely:
1. Kuantan Singingi
2. Indragiri Hulu
3. Indragiri Hilir
4. Pelalawan
5. Siak
6. Kampar
7. Rokan Hulu
8. Bengkalis
9. Rokan Hilir
10. Kepulauan Meranti

11. Kota Pekanbaru
12. Kota Dumai

**Data Collection Techniques**

Data collection in this study is carried out using the following techniques:

1. **Documentation**: Documentation is used to obtain secondary data, such as:
   a. Regional Revenue and Expenditure Budget Reports
   b. Budget Realization Reports
   c. Regional Financial Reports of districts/cities in Riau Province for the 2022-2025 period
2. **Literature Study**: Literature study is conducted to obtain theoretical foundations and references relevant to this research, including books, scientific journals, and previous research results.

**Data Analysis Techniques**

Data analysis in this study is conducted using SPSS Version 25 and performed in stages. The analysis stages are as follows:

1. Descriptive Statistics Analysis: Used to describe data through mean, standard deviation, minimum, and maximum values.
2. Classical Assumption Tests:
   a. Normality Test: Using Kolmogorov-Smirnov test and Normal P-P Plot to ensure that residuals are normally distributed.
   b. Autocorrelation Test: Using Runs Test because the data is time series data.
   c. Multicollinearity Test: Using Tolerance and VIF (Variance Inflation Factor) values.
   d. Heteroscedasticity Test: Using Scatterplot graph.
3. Multiple Linear Regression Analysis: Used to determine the direction and magnitude of the influence of independent variables on the dependent variable.
   The regression equation is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:
Y = Local Government Financial Performance
$\alpha$ = Constant
$\beta_1$, $\beta_2$, $\beta_3$ = Regression Coefficients
$X_1$ = Local Own-Source Revenue (PAD)
$X_2$ = Personnel Expenditure
$X_3$ = Capital Expenditure
$\varepsilon$ = Error Term

4. Hypothesis Testing:
   a. Partial Test (t-test): Used to determine the partial influence of each independent variable on the dependent variable at a significance level of 5%.
   b. Simultaneous Test (F-test): Used to determine the simultaneous influence of all independent variables on the dependent variable at a significance level of 5%.
   c. Coefficient of Determination ($R^2$): Used to measure how much the independent variables can explain the variation in the dependent variable.

## 4. RESEARCH RESULTS AND DISCUSSION

### Research Result

### Descriptive Analysis

**Table 1. Descriptive Statistics Results**

***Descriptive Statistics***

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Pendapatan Asli Daerah | 48 | 76851089347,81 | 1272989726402,10 | 331569064384,2302 | 262151921822,17420 |
| Belanja Pegawai | 48 | 349233000074,89 | 1414120422455,00 | 782241200511,6445 | 239675559501,89227 |
| Belanja Modal | 48 | 88838686757,25 | 1109714993117,00 | 304692968809,4691 | 183804625181,14706 |

| | | | | | |
|---|---|---|---|---|---|
| Kinerja Keuangan Pemerintah Daerah | 48 | 1,33 | 1,78 | 1,5500 | ,08772 |
| Valid N (listwise) | 48 | | | | |

Source: SPSS Version 25 Output, 2026

Based on the descriptive analysis results of 48 data points, it was found that the average Local Own-Source Revenue (PAD) was IDR 331,569,064,384.23 with a standard deviation of IDR 262,151,921,822.17, ranging from IDR 76,851,089,347.81 to IDR 1,272,989,726,402.10. Personnel Expenditure had an average of IDR 782,241,200,511.64 (standard deviation IDR 239,675,559,501.89) with the lowest value of IDR 349,233,000,074.89 and the highest of IDR 1,414,120,422,455.00. Capital Expenditure showed an average of IDR 304,692,968,809.47 (standard deviation IDR 183,804,625,181.15), ranging from IDR 88,838,686,757.25 to IDR 1,109,714,993,117.00. Meanwhile, Local Government Financial Performance had an average of 1.55 (standard deviation 0.09), with a minimum value of 1.33 and a maximum of 1.78.

### Normality Test

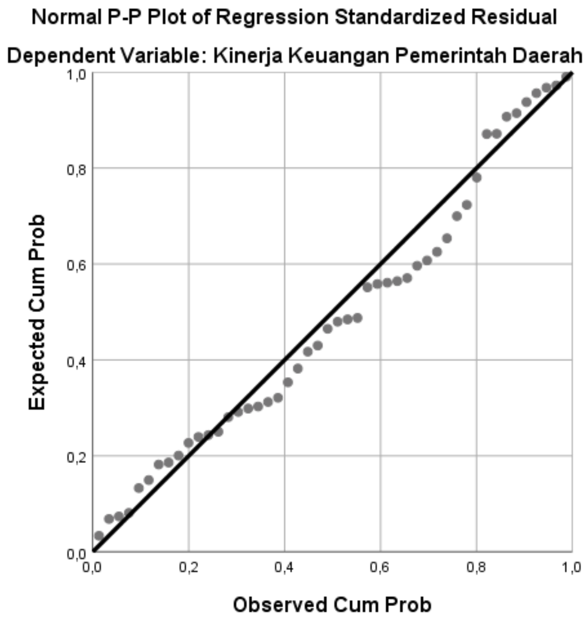


**Figure 2. Normal P-P Plot Results**
Source: SPSS Version 25 Output, 2026

The normality test results using the Normal P-P Plot graph show that the points are scattered around and follow the diagonal line. This pattern indicates that the residuals are normally distributed, thus the normality assumption for the regression model is met.

**Table 2. Kolmogorov-Smirnov Normality Test Results**
***One-Sample Kolmogorov-Smirnov Test***

| | | Unstandardized Residual |
|---|---|---|
| N | | 48 |
| Normal Parameters[a,b] | Mean | ,0000000 |
| | Std. Deviation | ,07516393 |
| Most Extreme Differences | Absolute | ,100 |
| | Positive | ,100 |
| | Negative | -,066 |
| Test Statistic | | ,100 |
| Asymp. Sig. (2-tailed) | | ,200[c,d] |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Source: SPSS Version 25 Output, 2026

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The normality test results using Kolmogorov-Smirnov show a test statistic value of 0.100 with Asymp. Sig. (2-tailed) of 0.200. Since the significance value is greater than 0.05, it can be concluded that the residuals are normally distributed. Thus, the normality assumption in the regression model is met.

**Autocorrelation Test**

**Table 3. Runs Test Autocorrelation Test Results**

***Runs Test***

| | Unstandardized Residual |
|---|---|
| Test Value[a] | -,00540 |
| Cases < Test Value | 24 |
| Cases >= Test Value | 24 |
| Total Cases | 48 |
| Number of Runs | 28 |
| Z | ,729 |
| Asymp. Sig. (2-tailed) | ,466 |

a. Median

Source: SPSS Version 25 Output, 2026

The Runs Test results with median value show a Z statistic value of 0.729 and Asymp. Sig. (2-tailed) of 0.466. Since the significance value is greater than 0.05, there is no autocorrelation symptom in the residuals. Thus, the residual independence assumption in the regression model is met.

**Multicollinearity Test**

**Table 4. Multicollinearity Test Results**

***Coefficients[a]***

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. | Tolerance | VIF |
| 1 | (Constant) | 1,530 | ,039 | | 39,329 | ,000 | | |
| | Pendapatan Asli Daerah | -1,409E-13 | ,000 | -,421 | -2,799 | ,008 | ,737 | 1,356 |
| | Belanja Pegawai | -7,777E-15 | ,000 | -,021 | -,130 | ,897 | ,625 | 1,600 |
| | Belanja Modal | 2,405E-13 | ,000 | ,504 | 3,265 | ,002 | ,701 | 1,427 |

a. Dependent Variable: Kinerja Keuangan Pemerintah Daerah

Source: SPSS Version 25 Output, 2026

The multicollinearity test results show that the Tolerance values for Local Own-Source Revenue are 0.737, Personnel Expenditure 0.625, and Capital Expenditure 0.701. Meanwhile, the VIF (Variance Inflation Factor) values for each variable are 1.356, 1.600, and 1.427 respectively. All Tolerance values > 0.10 and VIF values < 10, so it can be concluded that there is no multicollinearity symptom among the independent variables in the regression model.

**Heteroscedasticity Test**

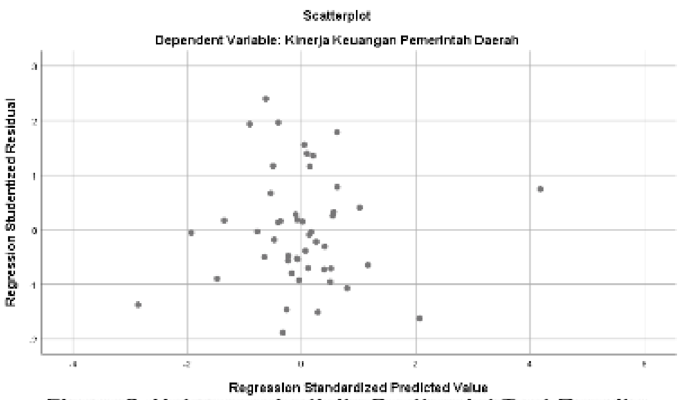


**Figure 3. Heteroscedasticity Scatterplot Test Results**

Source: SPSS Version 25 Output, 2026

Based on the scatterplot graph, it can be seen that the residual points are scattered without a clear pattern around the zero line. There is no widening, narrowing, or wavy pattern in the distribution of points. This indicates that the residual variance is constant or there is no heteroscedasticity in the regression model.

**Multiple Linear Regression Results**

The multiple linear regression analysis is used to test the direction and magnitude of the influence of the independent variables on the dependent variable.

$$\boxed{Y = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon}$$

Where:

Y = Local Government Financial Performance
α = Constant
β = Regression Coefficient
$X_1$ = Local Own-Source Revenue
$X_2$ = Personnel Expenditure
$X_3$ = Capital Expenditure
ε = Error Term

**Table 5. Multiple Linear Regression Results**

***Coefficients[a]***

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 1,530 | ,039 | | 39,329 | ,000 |
| | Pendapatan Asli Daerah | -1,409E-13 | ,000 | -,421 | -2,799 | ,008 |
| | Belanja Pegawai | -7,777E-15 | ,000 | -,021 | -,130 | ,897 |
| | Belanja Modal | 2,405E-13 | ,000 | ,504 | 3,265 | ,002 |

a. Dependent Variable: Kinerja Keuangan Pemerintah Daerah

Source: SPSS Version 25 Output, 2026

Based on the multiple linear regression analysis results, the following equation is obtained:

$$Y = 1.530 - 1.409E\text{-}13\ X_1 - 7.777E\text{-}15\ X_2 + 2.405E\text{-}13\ X_3 + \varepsilon$$

The constant value of 1.530 indicates that if all independent variables are zero, then the Local Government Financial Performance is estimated to be 1.530. The regression coefficient for Local Own-Source Revenue is negative (-1.409E-13) with a significance of 0.008, which means PAD has a negative and significant effect on financial performance. The regression coefficient for Personnel Expenditure is negative (-7.777E-15) with a significance of 0.897 (>0.05), so it does not have a significant effect. Meanwhile, the regression coefficient for Capital Expenditure is positive (2.405E-13) with a significance of 0.002, which means Capital Expenditure has a positive and significant effect on Local Government Financial Performance.

**Partial Test (t-test)**

**Table 6. Partial Test (t-test) Results**

***Coefficients[a]***

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 1,530 | ,039 | | 39,329 | ,000 |
| | Pendapatan Asli Daerah | -1,409E-13 | ,000 | -,421 | -2,799 | ,008 |
| | Belanja Pegawai | -7,777E-15 | ,000 | -,021 | -,130 | ,897 |
| | Belanja Modal | 2,405E-13 | ,000 | ,504 | 3,265 | ,002 |

a. Dependent Variable: Kinerja Keuangan Pemerintah Daerah

Source: SPSS Version 25 Output, 2026

The partial test results show that Local Own-Source Revenue has a significant effect on Local Government Financial Performance ($t = -2.799$; $p = 0.008 < 0.05$). Conversely, Personnel Expenditure does not show a significant effect (t = -0.130; p = 0.897 > 0.05). Meanwhile, Capital Expenditure was found to have a significant effect on Local Government Financial Performance (t = 3.265; p = 0.002 < 0.05).

**Simultaneous Test (F-test)**

**Table 7. Simultaneous Test (F-test) Results**

***ANOVA*** [a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | ,096 | 3 | ,032 | 5,308 | ,003[b] |
| | Residual | ,266 | 44 | ,006 | | |
| | Total | ,362 | 47 | | | |

a. Dependent Variable: Kinerja Keuangan Pemerintah Daerah
b. Predictors: (Constant), Belanja Modal, Pendapatan Asli Daerah, Belanja Pegawai
Source: SPSS Version 25 Output, 2026

The simultaneous test (F-test) results show an F calculated value of 5.308 with a significance level of 0.003. Since the significance value is smaller than 0.05, it can be concluded that simultaneously (together) the variables Local Own-Source Revenue, Personnel Expenditure, and Capital Expenditure have a significant effect on Local Government Financial Performance.

**Coefficient of Determination ($R^2$)**

**Table 8. Coefficient of Determination Results**

***Model Summary*** [b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | ,515[a] | ,266 | ,216 | ,07768 | 1,627 |

a. Predictors: (Constant), Belanja Modal, Pendapatan Asli Daerah, Belanja Pegawai
b. Dependent Variable: Kinerja Keuangan Pemerintah Daerah
Source: SPSS Version 25 Output, 2026

The coefficient of determination results show a multiple correlation coefficient (R) of 0.515, indicating a fairly strong relationship between the independent variables and the dependent variable. The R Square value of 0.266 or 26.6% means that the variables Local Own-Source Revenue, Personnel Expenditure, and Capital Expenditure together can explain the variation in Local Government Financial Performance by 26.6%, while the remaining 73.4% is explained by other variables outside the research model. The Adjusted R Square value of 0.216 is the R Square value that has been adjusted for the number of predictors. Meanwhile, the Durbin-Watson value of 1.627 indicates no autocorrelation problem.

**Discussion**

**Effect of Local Own-Source Revenue (PAD) on Local Government Financial Performance**

The partial test results show that Local Own-Source Revenue (PAD) has a t-calculated value of -2.799 with a significance level of 0.008 ($p < 0.05$). This finding indicates that PAD has a significant effect on local government financial performance. However, the negative regression coefficient (-1.409E-13) indicates that the direction of influence is opposite to the hypothesis proposed. Thus, the first hypothesis is rejected.

This result relates to the phenomenon in Riau Province, where based on data from the Regional Office of the Directorate General of Treasury (DJPb) of Riau Province, PAD grew rapidly at 70.05 percent annually, but regional revenue realization in 2025 only reached 86.7 percent of the target. The increase in PAD that is not balanced with optimal realization capability actually has an impact on decreasing local government financial performance. This finding is in line with research by Khrisnadewi & Praptiestrini which found that increased revenue is not necessarily followed by improved financial performance if not supported by effective financial management [1].

The negative influence of PAD on financial performance can be explained by several factors. First, the dominance of natural resource-based revenue in Riau Province makes PAD highly volatile and dependent on global commodity price fluctuations. When PAD increases due to rising commodity prices, local governments tend to increase expenditures but are not accompanied by improved quality of planning and implementation, resulting in decreased financial performance efficiency ratios. Second, high PAD growth often creates fiscal euphoria that encourages increased spending that is not priority-based, so that budget absorption becomes less effective. Third, the gap between PAD realization and established targets indicates weaknesses in regional revenue planning, which then affects the measurement of overall financial performance.

**Effect of Personnel Expenditure on Local Government Financial Performance**

The partial test results show that personnel expenditure has a t-calculated value of -0.130 with a significance level of 0.897 ($p > 0.05$). The significance value exceeding the 0.05 limit indicates that personnel expenditure does not have a significant effect on local government financial performance. Thus, the second hypothesis is accepted.

This finding is in line with the phenomenon in Riau Province where operating expenditure dominates the APBD with a share reaching 89.09 percent, which means personnel expenditure is the main burden without providing a real contribution to improving financial performance. Furthermore, the APBD deficit experienced by five regencies (Rokan Hilir, Rokan Hulu, Kepulauan Meranti, Kuansing, and Pelalawan) is caused by personnel expenditure that is fixed and inflexible. This result supports research by Khrisnadewi & Praptiestrini in Central Java which also found that personnel expenditure does not affect local government financial performance [1].

The insignificant influence of personnel expenditure can be explained by several reasons. First, personnel expenditure is a mandatory and relatively fixed expenditure (fixed expenditure) that cannot be adjusted quickly, so its allocation does not reflect the government's performance in financial management. Second, personnel expenditure in Riau Province tends to be dominated by routine employee salaries and benefits, without being accompanied by improvements in employee productivity and performance. Third, the large allocation for personnel expenditure creates a rigid fiscal structure, reducing the government's flexibility to allocate funds to more productive expenditures such as capital expenditure.

This finding contradicts the research by Suparlan et al. in NTB which found that personnel expenditure is a dominant factor determining the amount of transfers to regions [6]. The difference in results can be explained by differences in the fiscal structure and characteristics of each region, where NTB has a different pattern of regional financial management compared to Riau Province.

**Effect of Capital Expenditure on Local Government Financial Performance**

The partial test results show that capital expenditure has a t-calculated value of 3.265 with a significance level of 0.002 ($p < 0.05$). The positive regression coefficient (2.405E-13) indicates that capital expenditure has a positive and significant effect on local government financial performance. Thus, the third hypothesis is accepted.

However, this finding contradicts the actual phenomenon in Riau Province. Based on data from the Regional Office of the Directorate General of Treasury (DJPb) of Riau Province, capital expenditure actually contracted by minus 26.07 percent with realization only about 50 percent of the plan. Logistical obstacles such as the collapse of the connecting bridge to the Tanjung Buton Port pier in Siak Regency as well as disaster risks such as forest fires and floods are the causes of low capital expenditure realization. As a result, the potential for improving financial performance through capital expenditure investment cannot be maximized. This result differs from the research by Eryana et al. in Bali which found that capital expenditure does not have a significant effect [5], but is in line with Khrisnadewi & Praptiestrini which proves the positive role of capital expenditure on financial performance [1].

The positive influence of capital expenditure on local government financial performance can be explained by several mechanisms. First, capital expenditure in the form of infrastructure development can increase economic activity and regional tax potential, which in the long run can improve the efficiency and effectiveness of regional financial performance. Second, capital expenditure that supports public service facilities can improve the quality of services, which is reflected in improvements in the efficiency ratio of regional financial management. Third, capital expenditure represents investment in regional assets that will provide long-term benefits, both in the form of multiplier effects on the regional economy and increasing the regional capacity to generate own-source revenue.

**Simultaneous Effect of PAD, Personnel Expenditure, and Capital Expenditure on Local Government Financial Performance**

The simultaneous test (F-test) results show an F-calculated value of 5.308 with a significance level of 0.003 ($p < 0.05$). This finding proves that simultaneously Local Own-Source Revenue, personnel expenditure, and capital expenditure have a significant effect on local government financial performance. Thus, the fourth hypothesis is accepted.

The R Square value of 0.266 (26.6%) shows that the contribution of the three independent variables in explaining the variation in financial performance is 26.6%, while the remaining 73.4% is explained by other variables outside the model. The phenomenon in Riau Province, which has a volatile economic character due to dependence on natural resources, as well as the gap between the provincial APBD surplus and deficits in five regencies, indicates that there are still many other factors that also affect financial performance. Besides general transfer funds (DAU and DAK), goods and services expenditure, regional economic growth, and governance, local financial performance is believed to be highly sensitive to Inflation Rates and the Performance of Natural Resource Revenue Sharing Funds (DBH). Fluctuations in global oil, gas, and palm oil prices can affect the portion of DBH received by districts/cities, which in turn significantly impacts overall fiscal capacity.

The significant simultaneous influence indicates that although partially only capital expenditure has a positive and significant influence, the combination of the three variables together contributes to local government financial performance. This indicates that local government financial performance is a complex phenomenon influenced by the interaction of various budget components.

**Research Limitations**

This study has several limitations that should be considered for the development of future research. Based on the determination test, the R Square value of 0.266 indicates that the ability of Local Own-Source Revenue (PAD), Personnel Expenditure, and Capital Expenditure to explain variations in Local Government Financial Performance is only 26.6 percent. This means that the majority of performance fluctuations, amounting to 73.4 percent, are driven by other factors outside the scope of this research model. Given the characteristics of Riau Province's economic structure, which is highly dependent on volatile natural resources, local financial performance is likely heavily influenced by external variables and central fiscal policies. Therefore, the absence of variables such as regional transfer funds (especially Natural Resource Revenue Sharing/DBH from the upstream oil, gas, and plantation sectors), the dynamics of regional economic growth, and inflation rates represent the primary limitations that have not been accommodated in this regression model.

## 5. CONCLUSION

This study aims to analyze the influence of Local Own-Source Revenue (PAD), Personnel Expenditure, and Capital Expenditure on the Financial Performance of District/City Local Governments in Riau Province for the 2022-2025 period. Based on the results of the analysis of 48 data points from 12 regencies/cities, it was found that simultaneously the three variables have a significant effect on financial performance with a contribution of 26.6%. However, partially only Capital Expenditure has a positive and significant effect, while PAD has a significant but negative effect, and Personnel Expenditure has no significant effect. These findings reflect that regional financial management in Riau Province still faces serious challenges, especially related to low capital expenditure realization and the dominance of personnel expenditure that narrows the fiscal space for development.

## 6. SUGGESTIONS

Local governments are advised to improve revenue and capital expenditure realization, streamline personnel expenditure by rationalizing the apparatus and reallocating the budget to productive expenditures, and strengthen overall regional financial governance. For future researchers, it is recommended to add other variables such as transfer funds and economic growth, extend the observation period, and use panel data analysis methods.

For future researchers, it is recommended to add more specific macroeconomic and balancing fund variables, such as Natural Resource Revenue Sharing Funds (DBH) and Inflation Rates, considering that the DBH portion heavily dominates the revenue structure in oil and plantation-producing districts/cities in Riau Province. In addition, it is recommended to extend the observation period and use panel data analysis methods.

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