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Analysis of the Effect of Capital Expenditure, Balancing Funds, and Budget Surplus (SiLPA) on the Financial Performance of Regency/City Governments in Central Java Province for the 2023-2025 Period

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Abstract:
This study aims to analyze the impact of capital expenditure, balancing funds, and the Remaining Budget Overplus (SiLPA) on local government financial performance, measured by the fiscal independence ratio. The research focuses on 35 Regencies/Cities in Central Java Province from 2023 to 2025. Utilizing panel data regression with the , the results reveal that capital expenditure has a significant negative effect on financial performance, suggesting that fixed asset investments have not immediately boosted local own-source revenue (PAD). Conversely, balancing funds show a significant positive impact, proving that central transfer funds effectively act as a local economic catalyst. Meanwhile, SiLPA has no significant influence, indicating that budget surpluses are primarily used to cover subsequent deficits without leveraging fiscal independence. Findings suggest that local governments should enhance capital expenditure efficiency and improve budget planning quality.

Keywords:
Financial Performance, Capital Expenditure, Balancing Funds, Remaining Overbudget Plus, Fiscal Independence.

BACKGROUND

Law No. 23 of 2014 concerning Regional Government stipulates that the implementation of regional government affairs shall be carried out based on the principle of broad regional autonomy in accordance with the principle of the Unitary State of the Republic of Indonesia (NKRI), as stipulated in the 1945 Constitution of the Republic of Indonesia (UUD NRI 1945). Furthermore, Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD) regulates the delegation of political, administrative, and financial authority to regional governments in the provision of public services, which must comply with the prevailing laws and regulations concerning financial relations between the central and regional governments. Therefore, the enactment of these two legal frameworks is expected to establish a financial relationship between the central and regional governments that promotes a fair, transparent, accountable, and harmonious system of public financial management in accordance with applicable laws and regulations, thereby improving the financial performance of regional governments.

The financial performance of regional governments is an indicator of the success of regional autonomy, in which the level of financial independence and effectiveness in allocating regional financial resources are crucial aspects (Mahmudi, 2019). Several instruments within the Regional Budget (APBD) can be used to assess the financial performance of regional governments, including capital expenditure, balancing funds, and Budget Surplus Calculation

(SiLPA). Therefore, regional governments are required to continuously strive to allocate the APBD in a tangible manner and in accordance with the needs and interests of local communities.

One region whose financial performance is particularly interesting to examine is Central Java Province, which consists of 35 regencies/cities. In 2024, the realization of capital expenditure across all regencies/cities in Central Java Province increased by approximately 18.06% compared to 2023. In 2025, the amount of capital expenditure across all regencies/cities in Central Java Province also increased by 4.50%. This increase may indicate an influence on economic growth in the region (Waryanto, 2017), increase Regional Original Revenue (PAD) (Azis, 2020; Tampubolon & Ariadi, 2023), strengthen the regional development structure, and enhance local economic competitiveness, thereby contributing to the financial performance of regional governments (Lathifa & Haryanto, 2019; Ningrum, 2024).

Regarding balancing funds in Central Java Province, the allocation of balancing funds to regional governments amounted to IDR 54,763,127,202,855 in 2023, followed by an increase of 11.98% in 2024. However, in 2025, the allocation of balancing funds decreased by 7.09%. The increase in balancing funds in 2024 raises questions regarding the level of financial independence of regional governments in Central Java Province. This is because, although capital expenditure increased, which may indicate an increase in Regional Original Revenue (PAD) and reflect greater regional financial independence, this increase was not accompanied by a decline in balancing funds during the same year.

In addition to capital expenditure and balancing funds, another factor that may reflect the level of financial independence and effectiveness of a region is the amount of Budget Surplus Calculation (SiLPA), which is defined as the excess of realized revenues over expenditures within the relevant fiscal year. The amount of Budget Surplus Calculation (SiLPA) across all regional governments in Central Java Province during 2023–2025 experienced a steady decline. In 2024, SiLPA among regional governments in Central Java Province decreased by 18.65%. This decline indicates a positive development in terms of the level of financial independence and the effectiveness of budget utilization during the relevant fiscal year. Furthermore, in 2025, SiLPA among regional governments in Central Java Province also decreased by 21.30%. This may likewise reflect more effective budget utilization, as the amount of SiLPA decreased from year to year.

In addition, audit findings by the Audit Board of the Republic of Indonesia (BPK) regarding the Central Java Provincial Government in 2024 indicated weaknesses in regional financial governance. BPK identified irregularities in the management of expenditure funds amounting to IDR 96.2 billion, including inefficiencies in budget realization due to insufficient physical project work volumes and excessive honorarium payments. This phenomenon demonstrates that a high level of budget realization does not necessarily reflect good financial performance of regional governments if it is not accompanied by compliance with the principles of effectiveness and efficiency in APBD allocation.

Previous studies have reported inconsistent findings. Sari and Mustanda (2019), for example, found that capital expenditure had a positive effect on the financial performance of regional governments. However, this finding contrasts with the results of Antari and Sedana (2018), who found that capital expenditure had a negative and significant effect on regional government financial performance. In addition, studies conducted by Padang and Suprapto

(2023), Putri and Priyadi (2021), Maulina et al. (2021), and Atmoko and Khairudin (2022) reported different findings, namely that capital expenditure had no significant effect on regional government financial performance. Meanwhile, previous studies concerning balancing funds have also produced inconsistent results. Padang (2023) found that balancing funds had a positive effect on regional government financial performance. In contrast, Saputra (2025) and Kurniawan (2021) found that higher balancing funds or transfer revenues from the central government to regional governments had a negative effect on the financial ratios of regional governments.

Regarding SiLPA, previous studies by Fitriani and Syarif (2025) and Putri and Ratnawati (2023) found that a high level of SiLPA indicates the failure of regional governments to absorb their budgets, which may significantly worsen the assessment of regional government financial performance. The combination of capital expenditure, balancing funds, and SiLPA is expected to provide a more comprehensive understanding of regional government financial performance, particularly across the 35 regencies/cities in Central Java Province during the 2023–2025 period. Based on the phenomena concerning the allocation of capital expenditure, the decline in balancing funds, and the absorption of SiLPA, as well as the inconsistent findings of previous studies, this research is considered necessary. Therefore, the researcher is interested in empirically examining these relationships by incorporating updated data as a contribution to the present study.

THEORETICAL FRAMEWORK

Good Governance Theory

According to Mardiasmo (2010), *good governance* constitutes a fundamental pillar of solid and accountable development management, in line with the principles of democracy and an efficient market. The World Bank further elaborates this definition by emphasizing the prevention of corruption, budgetary discipline, and the establishment of a legal framework based on the *rule of law* that supports economic development. Operationally, the United Nations Development Programme (UNDP), as cited in Mardiasmo (2018), identifies nine fundamental characteristics that should be internalized by public institutions, namely:

1. Participation: The involvement of the public in the decision-making process in a constructive manner.
2. Rule of Law: The enforcement of a fair and impartial legal framework that protects human rights.
3. Transparency: Free access to accurate public information for relevant stakeholders.
4. Responsiveness: The ability of institutions to respond promptly and appropriately to the needs of stakeholders.
5. Consensus-Oriented: Acting as a mediator to achieve the best possible consensus for the public interest.

6. Equity: Providing equal opportunities for all citizens to improve their welfare.
7. Effectiveness and Efficiency: Optimizing public resources to produce appropriate and beneficial outputs.
8. Accountability: Taking responsibility for decisions and activities toward the public as the holder of sovereignty.
9. Strategic Vision: Adopting a long-term perspective in human development and governance.

Stewardship Theory

Based on the thesis of Donaldson and Davis (1991), *Stewardship Theory* assumes that organizational managers, in this context regional governments acting as *stewards*, possess psychological motivations to act in the public interest (*principal*) rather than pursuing their own interests. In the context of public sector accounting, governments are positioned as trustworthy stewards who seek to maximize public utility through transparent management of financial resources without relying on coercive forms of supervision. This theory emphasizes that the success of a steward is measured by the extent to which quality public services can be achieved through efficient budget allocation.

Financial Performance of Regional Governments

Financial performance reflects the effectiveness of regional governments in implementing regional autonomy and fiscal decentralization. Tumija (2022) and Sari (2021) define financial performance as the capacity of regional governments to generate and manage their own financial resources, particularly Regional Original Revenue (PAD), to finance development without absolute dependence on the central government. The primary instrument used to measure this performance is the **Regional Financial Independence Ratio**, which specifically compares the realization of Regional Original Revenue (PAD) with total Transfer Revenue (Mahmudi, 2019).

Capital Expenditure

Based on Minister of Finance Regulation No. 91/PMK.06/2007 and the 2025 Government Accounting Standards (SAP), capital expenditure refers to budget expenditures incurred to acquire fixed assets or other assets that provide benefits for more than one accounting period. Referring to Government Regulation No. 71 of 2010 (PSAP No. 07), capital expenditures are formally classified into five categories:

1. Land Capital Expenditure: The acquisition of land until it is ready for use.
2. Equipment and Machinery Capital Expenditure: The acquisition of office equipment, inventories, and operational machinery.

3. Building and Structure Capital Expenditure: The construction or rehabilitation of buildings and structures.

4. Roads, Irrigation, and Network Capital Expenditure: The development of infrastructure related to transportation, distribution, irrigation, and networks.

5. Other Fixed Assets: The acquisition of fixed assets that do not fall into the aforementioned categories, such as library collections, historical artifacts, or plants.

Balancing Funds (Transfer Funds)

Law No. 33 of 2004 defines balancing funds as allocations from the State Budget (APBN) to regional governments intended to mitigate fiscal disparities or *horizontal imbalances*. However, it is important to note the transition in the legal framework toward Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), which currently serves as the latest regulatory framework governing Transfers to Regions (TKD). The main components include:

1. General Transfer Funds (DTU): Consisting of Revenue Sharing Funds (DBH) and General Allocation Funds (DAU), which are intended to promote equalization of fiscal capacity.

2. Specific Transfer Funds (DTK): Consisting of Physical and Non-Physical Special Allocation Funds (DAK), which are intended to finance specific governmental affairs in accordance with national priorities.

Budget Surplus Calculation (SiLPA)

SiLPA, in accordance with PSAP No. 2 under Government Regulation No. 71 of 2010 and the perspective of Mahmudi (2019), refers to the difference between realized budget revenues and expenditures within a single period. From the perspective of *Agency Theory* (Jensen & Meckling, 1976), a significant accumulation of SiLPA indicates the presence of *idle funds*. This phenomenon reflects managerial failure in budget absorption, which theoretically may result in an opportunity loss for the public to obtain optimal public services.

Logical Framework of the Relationships Between Theories and Variables

This synthesis constructs an argument that regional government financial performance is a manifestation of a commitment to *Stewardship* and adherence to the principles of *Good Governance*. The principle of efficiency in good governance requires regional governments to minimize SiLPA; therefore, controlling SiLPA reflects the precision of budget planning (*budgetary precision*).

However, empirical reality often reveals the existence of agency problems. This issue is further illustrated by the audit findings of the Audit Board of the Republic of Indonesia (BPK) concerning the Central Java Provincial Government in 2024, which identified budget inefficiencies amounting to IDR 96.2 billion, originating from deficiencies in the volume of

physical projects and excessive honorarium payments. This phenomenon demonstrates that a high level of capital expenditure realization does not automatically improve financial performance when violations of the *Rule of Law* and effectiveness principles occur.

From the perspective of *Stewardship Theory*, the government, as a *steward*, is responsible for maximizing public utility. The allocation of capital expenditure to strategic infrastructure represents a form of long-term investment that is expected to stimulate local economic growth and strengthen fiscal independence. Balancing funds are positioned as a catalyst for stewards to ensure equitable public services despite regional fiscal limitations, in accordance with the principles of accountability and equity within *Good Governance*.

Development of Research Hypotheses

Capital expenditure represents a long-term investment instrument designed to improve public service capacity and stimulate Regional Original Revenue (PAD). The allocation of productive fixed assets reflects the commitment of the steward to maximize organizational value in the eyes of the public. Empirical support from Sari and Mustanda (2019) confirms this positive relationship, although a research gap remains based on the findings of Antari and Sedana (2018).

Balancing funds, within the framework of Law No. 1 of 2022 (HKPD), provide fiscal support that gives regional governments greater certainty in carrying out decentralized governmental affairs. This funding certainty enables stewards to maintain budgetary stability and expand the coverage of public services. Padang (2023) found a positive effect, emphasizing that fiscal transfers are an important determinant in maintaining regional financial performance.

SiLPA reflects managerial quality throughout the budget planning and absorption cycle. An excessive accumulation of *idle funds* indicates the existence of information asymmetry and failure to achieve efficiency under the principles of *Good Governance*. The BPK findings in 2024 regarding IDR 96.2 billion in inefficiencies in Central Java strengthen the argument that poor management of remaining budget funds can adversely affect financial performance. Conversely, controlled SiLPA indicates credible budget planning and greater budgetary accuracy.

Accordingly, this study proposes the following three hypotheses:

H1: Capital expenditure has an effect on the financial performance of regional governments.

H2: Balancing funds have an effect on the financial performance of regional governments.

H3: Budget Surplus Calculation (SiLPA) has an effect on the financial performance of regional governments.

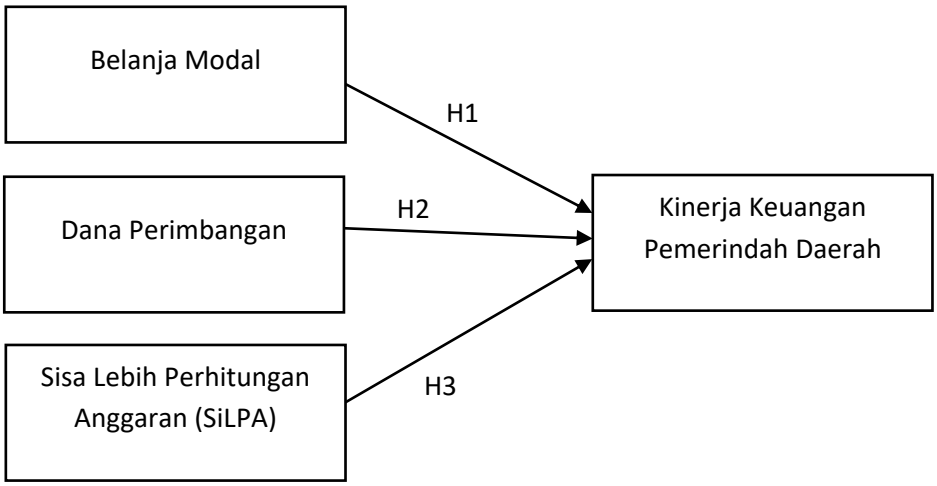


Figure 1. Hypotheses Analysis

METHOD

This study uses secondary data obtained from the APBD Budget Structure and TKDD Budget Structure of each regency/city in Central Java Province for the 2023–2025 period. The data are published through the Regional Financial Information System (SIKD) on the official portal of the Directorate General of Fiscal Balance (DJPK), Ministry of Finance of the Republic of Indonesia.

The financial independence ratio is used as the dependent variable as an indicator of regional government financial performance. Meanwhile, this study employs three independent variables, namely capital expenditure, balancing funds, and Budget Surplus Calculation (SiLPA). The software used to analyze the data through panel data regression is EViews 12.

The analysis begins with descriptive statistical analysis, followed by the selection of the appropriate regression model. Subsequently, the selected regression model is subjected to classical assumption tests, including the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Finally, statistical F-test, R-squared test, and statistical t-test are conducted to examine the overall significance of the model and the significance of each independent variable in explaining the dependent variable.

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RESULT

Descriptive Analysis

Table 1. Descriptive Analysis Results

	Y (Rasio)	X1 (Rp Miliar)	X2 (Rp Miliar)	X3 (Rp Miliar)
Mean	0.310655	271.8711	1462.142	152.6931
Median	0.264400	253.6100	1457.160	144.4500
Maximum	1.447900	1103.980	2329.200	529.5900
Minimum	0.118800	55.64000	571.2500	0.000000
Std. Dev.	0.191925	168.2719	407.0390	93.39253
Skewness	3.355166	2.771955	-0.417330	0.890250
Kurtosis	17.32101	13.73767	3.182410	4.697895
Jarque-Bera	1094.274	638.8919	3.193450	26.48202
Probability	0.000000	0.000000	0.202559	0.000002
Sum	32.61880	28546.47	153524.9	16032.78
Sum Sq. Dev.	3.830849	2944805.	17230802	907105.0
Observations	105	105	105	105

For the dependent variable, namely the Financial Independence Ratio, the collected data show a mean value of 0.310655, with a maximum value of 1.447900, recorded in Semarang City in 2025. Meanwhile, the lowest Financial Independence Ratio (minimum value) was 0.118800, recorded in Wonogiri Regency in 2023.

For the first independent variable (X1), namely Realized Capital Expenditure, the collected data show a mean value of 271.8711, with a maximum value of 1103.980, recorded in Semarang City in 2024. Meanwhile, Demak Regency in 2025 recorded the lowest value of realized Capital Expenditure, amounting to 55.64000.

For the second independent variable (X2), namely Balancing Funds, the collected data show a mean value of 1462.142, with a maximum value of 2329.200, recorded in Brebes Regency in 2025. Meanwhile, Magelang City in 2023 recorded the lowest realization of Balancing Funds, amounting to 571.2500.

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Test Results

The results of the panel data regression analysis indicate that the Capital Expenditure variable, LOG(X1), has a probability value of 0.0009 with a coefficient of -0.223182. This indicates that Capital Expenditure has a statistically significant negative effect on the Financial Independence Ratio.

Furthermore, the Balancing Funds variable (X2) has a probability value of 0.0000, with a coefficient of 0.001591. This indicates that Balancing Funds have a statistically significant positive effect on the Financial Independence Ratio.

Finally, the t-statistic test for the SiLPA variable, LOG(X3+1), produces a probability value of 0.3081 with a coefficient of -0.019870. This indicates that SiLPA has a negative but statistically insignificant effect on the Financial Independence Ratio.

Table 2. Panel Data Regression Analysis Results

Pengujian	**Nilai Statistik**	**Probabilitas**	**Kesimpulan**
A. Uji Pemilihan Model			
Uji Chow	F = 19,279885	0,0000	FEM
Uji Hausmann	chi-square = 61,167610	0,0000	FEM
B. Uji Asumsi Klasik			
Uji Normalitas (*Jarque-Bera*)	JB = 5,325511	0,069756	Residual terdistribusi normal
Multikolinearitas (VIF)	Seluruhnya VIF < 10	-	Tidak ada multikolinearitas
Autokorelasi (*Durbin-Watson*)	DW = 2,167960	-	Tidak ada autokorelasi
Heteroskedastisitas (*Harvey*)	F = 2,038398	0,1133	Tidak ada heteroskedastisitas
C. Analisis Regresi Data Panel (FEM) dan Pengujian Hipotesis			
Variabel	**Koefisien**	**Probabilitas**	**Kesimpulan**
Konstanta (C)	-2,2972	0,0000	-
Belanja Modal LOG (X1)	-0,223	0,0009	H1 diterima
Dana Perimbangan X2	0,0015	0,0000	H2 diterima
SiLPA LOG (X3 + 1)	-0,0198	0,3081	H3 ditolak
R^2 = 0,924 | Adj. R^2 = 0,883 | F-stat = 22,156 | Prob(F) = 0,000000			

Normality Test

In the initial normality test, the Jarque-Bera statistic was 94.27782, with a probability value of 0.0000. These results indicate that the data are not normally distributed, as the probability value is below the standard significance level of 0.05.

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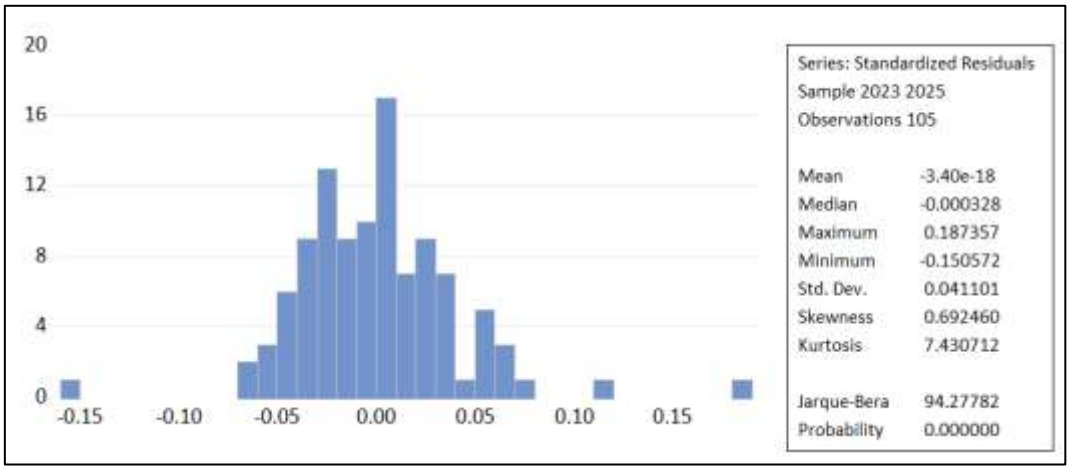


Figure 2. Normality Test Results Before Data Transformation

After identifying the non-normality of the data in the initial test, the collected data also showed that the Financial Independence Ratio (Y), Capital Expenditure (X1), and SiLPA (X3) exhibited *skewness*, with a tendency to be left-skewed and displaying a substantially positive histogram. In addition, the SiLPA (X3) variable contained observations with a value of zero, specifically in Grobogan Regency in 2025 and Kebumen Regency in 2023. These conditions may contribute to the non-normal distribution of the data.

Therefore, a data transformation process was conducted using logarithmic transformation on the relevant variables, as follows:

1. The dependent variable Y was transformed into log(Y).
2. The independent variable X1 was transformed into log(X1).
3. The independent variable X3 was transformed into log(X3 + 1).

Logarithmic transformation is an effective method for transforming data that are not normally distributed due to positive skewness, while also helping stabilize variance so that the distribution of the data becomes more normal. The use of the natural logarithm can minimize the distance between observations, allowing data containing extreme values to be distributed more evenly and potentially meet the normality assumption (Ghozali, 2021).

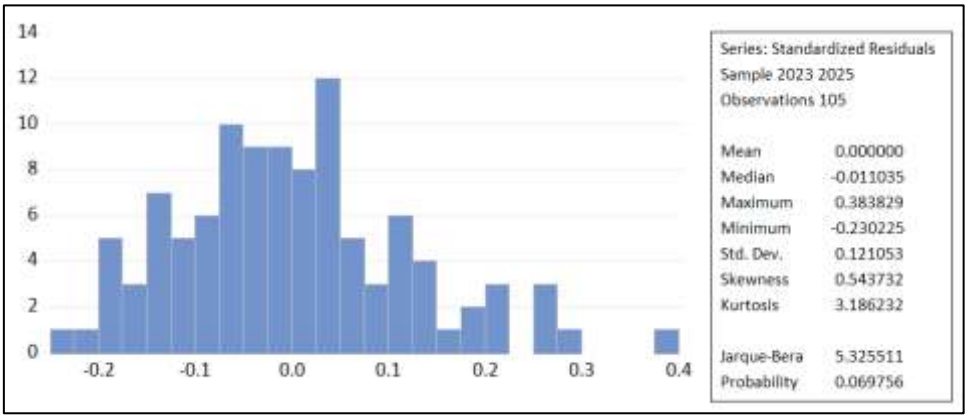


Figure 3. Normality Test Results After Data Transformation

DISCUSSION

The Effect of Capital Expenditure on the Financial Performance of Regency/City Governments in Central Java Province, 2023–2025

Based on the panel data regression analysis, Capital Expenditure has a t-statistic probability value of **0.0009**, with a coefficient of **-0.223182**. Therefore, it can be concluded that Capital Expenditure has a **statistically significant effect** on the financial performance of Regency/City Governments in Central Java Province during the 2023–2025 period. The effect is negative, indicating that, based on the analysis conducted, a lower level of capital expenditure may lead to an improvement in financial performance. Based on the hypothesis formulated in this study, **H1, which states that "Capital Expenditure affects the financial performance of regional governments," is accepted.**

The acceptance of H1 supports the findings of Fitriani and Syarif (2025), who stated that Capital Expenditure is a significant determinant affecting regional government financial performance. However, in terms of the direction of the relationship, the findings of this study contradict those of Ratnasari and Meirini (2022), who concluded that Capital Expenditure has a positive effect on regional government financial performance.

In terms of statistical significance, the findings of this study also differ from those of Maulina et al. (2021) and Putri and Priyadi (2021). Both studies found that Capital Expenditure did not have a statistically significant effect on regional government financial performance.

The differences between the findings of this study and those of previous studies may be attributed to differences in regional sample characteristics, observation periods, and the dynamics of regional fiscal management. This study focuses on regencies/cities in Central Java Province during the 2023–2025 period, when regional governments may have been allocating substantial budgets to infrastructure development or post-pandemic infrastructure recovery. This condition may have resulted in a considerable proportion of budget absorption being allocated to fixed assets.

From both theoretical and practical perspectives, the negative effect identified in this study can be explained by the fundamental characteristics of Capital Expenditure. Expenditures on capital assets, such as the construction of roads, bridges, and public facilities, represent a form of long-term investment by regional governments. Such public investments require a considerable amount of time before they can stimulate economic activity within the community and ultimately contribute to an increase in Regional Original Revenue (PAD). Consequently, during the current fiscal year, a high realization of Capital Expenditure may place significant pressure on the APBD without generating an immediate increase in the regional financial performance ratio or PAD.

Furthermore, high Capital Expenditure allocations are often closely associated with a high degree of regional dependence on transfers from the central government, such as the Physical Special Allocation Fund (DAK Fisik) included within the balancing fund framework. When regional capital expenditures are predominantly financed by central government transfers, the financial independence ratio and overall financial performance of regional governments may come under considerable pressure. The addition of fixed assets also automatically generates

subsequent financial obligations in the form of asset operation and maintenance costs. If the realized capital expenditure is not productive and is not accompanied by strategies to optimize independently generated revenue, the APBD structure may become increasingly burdened, thereby reducing the overall financial performance of regional governments.

The Effect of Balancing Funds on the Financial Performance of Regency/City Governments in Central Java Province, 2023–2025

Based on the panel data regression analysis, Balancing Funds have a t-statistic probability value of **0.0000**, with a coefficient of **0.001591**. Therefore, it can be concluded that Balancing Funds have a **statistically significant effect** on the financial performance of Regency/City Governments in Central Java Province during the 2023–2025 period. The effect is positive, indicating that, based on the analysis conducted, a higher amount of Balancing Funds may improve financial performance. Based on the hypothesis formulated in this study, **H2, which states that "Balancing Funds affect the financial performance of regional governments," is accepted.**

The acceptance of H2 is consistent with the findings of Fitriani and Syarif (2025), who concluded that transfers from the central government can significantly improve the financial performance of regional governments. Conversely, several previous studies, including those conducted by Maulina et al. (2021) and Putri and Priyadi (2021), found that Balancing Funds had either a negative effect or no statistically significant effect on regional government financial performance.

The differences between the results of this study and those of previous studies may be attributed to differences in fiscal governance characteristics, budget realization policies, and the fundamental economic and fiscal conditions of Central Java Province during the 2023–2025 period. Conceptually, a large proportion of Balancing Funds may increase regional governments' dependence on central government transfers, potentially reducing their incentives to increase locally generated revenue and consequently lowering the regional financial independence ratio. However, the positive finding in this study demonstrates that, in the context of Central Java Province, Balancing Funds may contribute to improving financial independence in several regions.

Regency/City Governments in Central Java have demonstrated the capacity to manage Balancing Funds effectively, thereby supporting productive economic activity. Transfers from the central government have been strategically absorbed to finance public sectors, such as public infrastructure development, digitalization of public services, and the empowerment of productive sectors within local communities. Indirectly, these activities may increase regional revenue through PAD, thereby contributing to a significant increase in the regional financial independence ratio.

Thus, the presence of Balancing Funds in Central Java Province does not necessarily create dependence of regional governments on the central government. Instead, these funds may function as a catalyst for increasing locally generated revenue and supporting the implementation of more effective fiscal decentralization, thereby simultaneously promoting Regional Original Revenue (PAD) and regional government financial performance.

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The Effect of Budget Surplus Calculation (SiLPA) on the Financial Performance of Regency/City Governments in Central Java Province, 2023–2025

Based on the panel data regression analysis, SiLPA has a t-statistic probability value of **0.3081**, with a coefficient of **-0.019870**. Therefore, it can be concluded that SiLPA has a **negative but statistically insignificant effect** on the financial performance of Regency/City Governments in Central Java Province during the 2023–2025 period. The negative coefficient indicates that an increase in SiLPA tends to be associated with a decline in financial performance; however, the effect is not statistically significant. Based on the hypothesis formulated in this study, **H3, which states that "Budget Surplus Calculation (SiLPA) affects the financial performance of regional governments," is rejected.**

The rejection of H3 is consistent with the findings of Putri and Ratnawati (2023), whose study found that fluctuations in SiLPA did not affect regional government financial performance. On the other hand, the empirical findings of this study contradict the conceptual findings of Fitriani and Syarif (2025), who concluded that SiLPA had a positive and partial effect on financial performance. In addition, these findings are also inconsistent with the research conducted by Ratnasari and Meirini (2022), which demonstrated that financial performance was negatively and significantly affected by SiLPA.

The absence of a statistically significant effect is relevant to the reality of Regional Government Budget (APBD) management in Central Java during the 2023–2025 period. Theoretically, a large nominal amount of SiLPA does not necessarily reflect effective regional government performance. Instead, it may indicate weaknesses in budget planning and low budget absorption by Regional Government Work Units (SKPD). During the observation period, unspent budget funds remaining in regional government accounts may have primarily resulted from delays in the implementation of physical projects or savings in routine operational expenditures, rather than from a substantial increase in genuine revenue surpluses.

Furthermore, the absence of a significant effect may be attributed to the mechanism through which these funds are utilized. Regency/City Governments in Central Java generally reallocate SiLPA as a financing revenue instrument to cover projected budget deficits in the subsequent fiscal year. These remaining funds are rarely reinjected into strategic investment programs capable of generating new sources of Regional Original Revenue (PAD). Since regional financial performance ratios are highly dependent on sustainable PAD growth, the idle cash represented by SiLPA fails to address the underlying issue of regional fiscal capacity. Consequently, regardless of the amount of SiLPA recorded in the Budget Realization Report (LRA), this component does not have sufficient leverage to materially improve the financial performance indicators of regional governments.

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CONCLUSION

This research was conducted to examine the effect of Capital Expenditure, Balancing Funds, and the Remaining Budget Balance (SiLPA) on the Financial Performance of Regency/City Local Governments in Central Java Province for the 2023–2025 period. The results of this study are as follows:

1. The valid regression model to determine the relationship between the independent variables and the dependent variable is the Fixed Effect Model (FEM), with the following **regression equation**:

$$LOG(Y_{it}) = -2.2972 - 0.223 \cdot LOG(X1_{it}) + 0.0015 \cdot X2_{it} - 0.0198 \cdot LOG(X3_{it} + 1) + e$$

2. The **Capital Expenditure** variable has a significant and negative effect on the Financial Performance of Regency/City Local Governments in Central Java Province for 2023–2025, with a probability result in the t-statistic test of 0.0001 and a coefficient value of -0.223182, meaning Hypothesis H1 is accepted. This explains that the significant allocation of capital expenditure by the local government has not been able to rapidly increase economic productivity to boost Local Own-Source Revenue (PAD). Consequently, the high realization of capital expenditure in the current year actually burdens the Local State Budget (APBD) posture without being offset by an instant increase in the financial independence ratio. The implication is that Regency/City local governments in Central Java Province must be more selective and efficient in utilizing the capital expenditure budget. Capital expenditure allocations must be based on a priority scale of productive infrastructure needs so that they can provide a return in the form of increased PAD in the future.

3. The **Balancing Funds** variable has a significant and positive effect on the Financial Performance of Regency/City Local Governments in Central Java Province for 2023–2025, with a probability result in the t-statistic test of 0.0000 and a coefficient of 0.001591, meaning Hypothesis H2 is accepted. This indicates that greater receipts of balancing funds (such as DAU, DAK, and DBH) from the central government will result in an improvement in regional financial performance. In this case, local governments in Central Java have proven capable of strategically managing transfer funds as a catalyst to stimulate the local economy, which leads to the expansion of the regional tax and retribution revenue base. The implication is that local governments must maintain and maximize the governance of these balancing funds by allocating them to well-targeted empowerment programs and public facility improvements. Thus, central assistance funds are not simply depleted for routine operational expenditures but are instead capable of strengthening regional fiscal independence.

4. The **Remaining Budget Balance (SiLPA)** variable has an insignificant and negative effect on the Financial Performance of Regency/City Local Governments in Central Java Province for 2023–2025, with a probability result in the t-statistic test of 0.3081 and a coefficient of -0.019870, meaning Hypothesis H3 is rejected. This shows that the nominal size of the SiLPA does not have a tangible impact on driving the indicators of regional financial performance independence. In this context, idle cash in the regional treasury is generally only used by the local government to cover the budget deficit in the following year and is rarely reinjected into strategic investment programs capable of generating new revenue. The implication is that local governments must improve the

quality of budget planning and absorption in each Regional Apparatus Working Unit (SKPD) so that expenditure realization targets are maximally achieved. This will minimize the occurrence of unproductive SiLPA and ensure that the benefits of public funds are truly felt by the community.

Regency/City Local Governments in Central Java Province must pay closer attention to policies determining the amount and allocation of the capital expenditure budget, as well as work to reduce unproductive SiLPA figures. Capital expenditure must be used according to the real needs of the community and involve selective decision-making to serve as a profitable long-term investment for the region. Furthermore, local governments need to improve the evaluation of budget absorption capacity in each SKPD so that APBD funds can be realized on time and do not end up as idle SiLPA at the end of the year.

Future research is expected to use other financial performance indicators or ratios not utilized in this study. In this research, the selected financial performance indicator was limited only to the regional financial independence ratio. The use of other ratios, such as the effectiveness ratio, efficiency ratio, or growth ratio, is highly recommended to provide a more comprehensive perspective on financial performance assessment. In addition, future researchers can include other independent variables that theoretically have the potential to explain their influence more broadly on local government financial performance.

This study uses a relatively short observation period of three years, from 2023 to 2025. Future research can be developed by extending the research time period (for example, five to ten years) and expanding the scope of the research sample area outside Central Java Province. This will ensure that the results obtained are more optimal, relevant, and capable of illustrating long-term trends in local government fiscal conditions.

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