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The Role of Mediation Capital Expenditures on the Relationship between Regional Original Income and Regional Financial Performance Growth: Empirical Evidence Panel Data in Aceh

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Abstract

The main objective of this study is to examine the mediating role of capital expenditures on the effect of local revenue on the growth of regional financial performance. Data collection uses secondary data obtained from the Financial Supervisory Agency (BPK) Audit Results Report (LHP) in the Financial Reports of City Districts in Aceh Province for period 2015-2019. The population in this study includes all districts/cities in Aceh Province, totaling 23 districts/cities from 2015-2019, with the number of samples taken using the census sampling technique as many as 23 districts/cities. Technical data analysis using panel data regression with the help of Eviews 10 software and Microsoft Office Excel 2019. This study indicates that regional original income has a significant effect on capital expenditure and capital expenditure also has a significant effect on financial performance growth. Capital expenditures can mediate local government revenue on the growth of regional financial performance. Original regional income does not directly affect the improvement of regional financial performance in districts/cities in Aceh Province. This study uses capital expenditure as a mediating variable on the effect of original local government revenue on improving regional financial performance. In contrast, previous studies used capital expenditure as an endogenous variable on regional financial performance. This research recommends to the district/city governments in Aceh province to increase continuously local revenue by optimizing the potential of natural resources, human resources, and capital resources.

Keywords
regional original income; capital expenditures; regional financial performance

I. Introduction

The change in the regional government system that was previously centralized to decentralize as enshrined in Law no. 22 of 1999 concerning local government does the community service at the local level. The stipulation of an extensive autonomy made the management of personnel and finances that were previously tightly regulated by the central government transferred in full to local governments—with the increasing role of local governments in development, making implementation in an integrated manner and seeking improvements for improvements made in the area of regional finance through the implementation of regional revenue and expenditure budgets. The ability of the region to manage the regional budget revenue and expenditure in a credible and accountable manner is an achievement of the regional government towards success, which can improve the financial performance of regional governments and become an indicator of success in the

implementation of regional autonomy. Regional financial performance can be measured by the ability of the region to explore the potential of the region that can contribute to the growth of regional original income every year (Antari & Sedana, 2018).

According to the regional economic policy formulation team for the Aceh province in 2021, it was stated that the financial performance of the Aceh province in the fourth quarter of 2020 experienced an overall decline. The realization of regional original income against the revenue target increased in percentage terms, but nominally in the fourth quarter of 2019 compared to the previous period. This can be found in the posture of the Aceh and district expenditure budgets in the fourth quarter of 2020, reaching 98.56% of the 2020 regional revenue ceiling, an increase in percentage compared to the fourth quarter of 2019, which realized 87.81% of the regional revenue ceiling in 2015. 2019. In nominal terms, regional income in the fourth quarter of 2020 reached Rp. 38.64 trillion or 4.58% based on the original local government revenue component, the majority of which came from transfer income which contributed 72.38% of the total realized revenue in the reporting period or Rp. 28.68 trillion, while the realized local revenue component of Rp. 5.41 trillion in the fourth quarter of 2020 only contributed 13.65% of the total realized revenue. This indicates that the dependence of local governments in Aceh on central government transfers is very high (BPS, 2020). The development of the degree of fiscal decentralization shows improvement in the 2017-2020 periods, this increase in fiscal decentralization is required to measure the financial performance of local governments. This measurement requires a complex assessment measure because the variables used to measure local governments' financial performance are diverse and use many measurement methods so that local government performance cannot be measured with only one variable (Mahsun et al., 2007).

Regional financial management, which is reflected in each region's original local government revenue and expenditure budgets, can be used as an instrument to make regulations in regional development so that regional financial accountability reports must be submitted annually (Lucky, 2013). According to Halim & Kusufi, (2017), a tool to analyze the financial performance of local governments in managing their regional finances is to apply financial ratios to the APBD, which include the ratio of regional financial independence, efficiency growth, and effectiveness ratio. Each increase or decrease in regional income depends on how many regional financial sources can generate income for the region. An essential component in the region is regional income because it is used to finance all programs that have been planned by the regional government, which is a manifestation of improving community welfare and the regional economy (Mohammed et al, 2015). If these financial sources are managed optimally, it will reflect local governments financial performance. The potential of the regions will be appropriately utilized so that financial sources from local revenue continue to increase (Sumawan & Sukartha, 2016; Taras & Sri Artini, 2017).

One of the authorities of regional autonomy is to increase local revenue daerah (Julitawati et al, 2012). Regional spending is used for public service costs, impacting regional income. Regional expenditures can be divided into capital expenditures and routine expenditures on social community services, administration, and financial services (Udoka & Anyingang, 2015). If government spending is above the threshold, it will positively affect economic growth (Aydin et al., 2016). In line with the opinion of Amuka et al., (2016) which states that government spending can lead to stability in the economy. This argument is by a Keynesian theory, which states that government spending can function as an economic policy that impacts economic growth in an area (Menyah & Rufael, 2013).

One of the government spending that can increase productivity is capital expenditure. Darwanis & Saputra (2014) stated that high capital expenditures could increase regional economic productivity, in t, his case, local governments' performance. Capital expenditures can also improve the standard of living of people belonging to the lower classes (Bojanic, 2013; Chude & Chude, 2013). If a region has a high capital expenditure entity per capita when compared to its income, then the region must emphasize its finances (Brusca et al, 2015). There are many studies on the effect of local revenue on local government financial performance, the results of which state that high local revenue can increase local government independence and have a significant positive effect on local financial performance (Nugroho & Rohman, 2012; Julitawati et al., 2012; Darwanis & Saputra, 2014; Antari & Sedana, 2018; Apriana & Suryanto, 2010). However, there is a contradiction from the results of the research above that local revenue has a significant adverse effect on local governments' financial performance, which indicates that an increase in original local government revenue can reduce the financial performance of local governments (Mulyani dan Wibowo, 2017; Machmud & Radjak, 2018).

On the other hand, there are other research results that state that large capital expenditures can assist regions in obtaining financial resources so as to generate regional income, which has implications for improving regional financial performance daerah (Astiti & Mimba, 2016; Andirfa, Basri, & Majid, 2016; Mulyani dan Wibowo, 2017). However, research results state that capital expenditure has a significant negative effect on the growth of regional financial performance directly (Nugroho & Rohman, 2012; Darwanis & Saputra, 2014; Antari & Sedana, 2018). Therefore, this study uses capital expenditure as a mediating variable on the effect of original local government revenue on improving regional financial performance. In contrast, previous studies used capital expenditure as an endogenous variable on regional financial performance.

II. Review of Literature

Regional original income (PAD) is an important part of regional income obtained from regional taxes, regional levies, the results of separated regional wealth management, and other legitimate regional original income. The addition of regional original income will have an impact on increasing regional income and will indicate that the financial performance of the regional government will be better (Sumawan & Sukartha, 2016; Taras & Sri Artini, 2017). Likewise, with capital expenditures, the addition of infrastructure development will create greater regional financial resources, if regional income growth increases it will reflect that the Regional Government can manage its finances well (Bojanic, 2013; Chude & Chude, 2013; Darwanis & Saputra, 2014).

Low achievement regional original income and capital expenditures are an indication of unhealthy fiscal conditions (Carmeli, 2007) (Honadle, 2003) (Jimenez, 2013) (Jones & Walker, 2007), this results in dependence on central assistance, it is important for regional original income must be the largest source of finance, which is supported by the central and regional financial balance policies so that the role of local governments becomes greater (Santosa, 2010).

2.1 The Effect of Regional Original Income on Capital Expenditure

Regional original income reflects an independent region because local governments can use regional original income more freely (Kurniawati, H. Busaini, & M, 2017). Improving facilities and infrastructure in the implementation of local government will trigger an increase in the quality of public services, appropriate facilities, and infrastructure

to encourage local governments to work more effectively and efficiently, thus the quality of public services will increase and encourage the public to participate in regional and local revenue efforts. will make an increase in regional original income, this is in line with the results of research (Guritno, 2015) which shows that regional original income has a positive and significant effect on capital expenditure.

Other research results show that local revenue does not affect capital expenditure (Rizanda, 2015) and other opinions also show the same results as this study, namely regional original income has a negative effect on Capital Expenditure (Suryani & Pariani, 2018). Then another study stated that regional original income had no effect on capital expenditure due to the small contribution of local government revenue to the total income obtained and also indicated that the amount of regional original income was not a determining factor in determining capital expenditure (Waskito et al., 2019). Based on the theoretical basis and also from the results of previous studies, the first hypothesis of this research is.

H_1: *Original local government revenue has a significant effect on capital expenditure.*

2.2 The Effect of Capital Expenditure on Regional Financial Performance Growth

Local governments can increase performance productivity through improving facilities and infrastructure, increasing facilities and infrastructure and also through improvements will make it easier for local governments to carry out their duties, this convenience has an impact on aspects of local government performance will increase. In addition, adequate infrastructure development can generate new sources of the regional revenue, this can trigger economic growth accompanied by growth in regional financial performance. This is in line with research conducted by Astiti & Mimba, (2016) which states that capital expenditure affects regional financial performance. Local governments that can increase capital expenditures will encourage development and growth of economic productivity, with proper development and increased regional economic productivity, local governments can be said to have managed their regional finances well (Amrozi, 2016). Then Mulyani and Wibowo, 2017 also got test results that capital expenditure had a significant positive effect on regional financial performance. Based on the theoretical basis and also from the results of previous studies, the second hypothesis of this research is:

H_2: *Capital expenditure has a significant effect on the growth of regional financial performance*

2.3 The Effect of Regional Original Income on Regional Financial Performance Growth through Capital Expenditure

Exploring the potential and optimizing local revenue is a very important task for local governments. The optimal increase in regional original income can minimize the dependence of the regional government on funding assistance from the central government, this creates independence for the regional government in managing its regional finances. Independent regional financial management will have an impact on increasing regional original income and will encourage the growth of regional financial performance. The ability of local governments to self-finance all their activities will make regional financial performance better, this is in line with the results research of Antari & Sedana, (2018) which states that regional original income has a significant positive effect on regional financial performance, this means that regional original income can contribute to regional financial performance.

The government can increase local revenue through local taxes and levies so that it has an impact on increasing financial performance growth (Darwanis & Saputra, 2014). Then Julitawati et al., 2012 and Wenny, 2012 also found that local revenue had a significant positive effect on local government financial performance. Based on the theoretical basis and also from the results of previous studies, the third hypothesis of this research is:

***H₃*: *Regional original Income has a significant direct and indirect effect on regional financial performance*.**

III. Research Method

The data used is secondary data obtained from various sources from the Examination Results Report (LHP) of the Regency/City Audit Board (BPK) with time series data for the 2015-2019 period. The data analysis model used is panel regression. The econometric model is used because this study analyzes the causal relationship between variables whose data is in the form of panel data, which is a combination of time-series data and cross-sectional data (Najmi, 2019). According to Sveikauskas (2019), in general, panel regression is formulated as follows:

$Yit = + X'\beta + \varepsilon it$ where, i = 1,...,n, dan t =1,…, ... (1)

Based on the basic equations of this research, the panel data regression can be formulated as follows:

PKKD = + 1PADit + 2BMit + it ..... (2)

Description:

PKKDit = regional financial performance growth,
α = constant (intercept),
β1 = original local government revenue regression coefficient,
β2 = capital expenditure regression coefficient, and ε = error term.

Mediation Hypothesis Testing Mediation hypothesis testing can be carried out using a procedure developed by Sobel in 1982 (in Baron and Kenny, 1986) and known as the Sobel test (Sobel test). The Sobel test will produce a standard error of the indirect effect of X on Y2 through Y1 mediation. , i.e., the coefficient ab, with the standard deviation of ab being as follows:

$$Z_{Statistic} = \frac{ab}{\sqrt{(b^2SE_a^2)+(a^2SE_b^2)}} \quad \text{.....(3)}$$

Description:

a = Regression coefficient of the independent variable on the mediating variable,
b = mediation regression coefficient on the dependent variable,
SE_a = standard error of estimation of the influence of independent variables on mediation, and
SE_b = standard error of estimation of the effect of the mediating variable on the dependent variable

The $Z_{statistic}$ value is compared with the critical value. If $Z_{statistic}$ value > 1.96 indicates a mediating effect of the variable Y1 on the relationship testing of X on Y2. For the model to be estimated, in general, three calculation methods are needed, namely the Pooled Least Square (PLS) method, the Fixed Effect (FEM) method, and the Random Effect (REM) method.

Using panel data regression is a set of techniques to model the effect of explanatory variables on response variables in panel data. In general, two approaches are used in estimating the model from panel data: the model without individual influence (common effect) and the model with individual influence (fixed effect and random effect). To choose which of the three approaches is considered the best, the Court test and Haussman test are used (Muliadi & Amri, 2019).

IV. Results and Discussion

4.1 Descriptive Analysis

This study analyzed the effect of local revenue on increasing regional financial performance mediated by capital expenditures in districts and cities in Aceh Province, for a period from 2015 to 2019. Table 1 below shows the results of descriptive statistics for all variables used in this study.

Table 1. Descriptive Analysis

	PKKD	PAD	BM
Mean	0.08	114,097.10	263,161.80
Median	0.10	92,665.00	263,655.90
Maximum	0.41	388,251.80	512,060.30
Minimum	(0.37)	35,905.41	100,757.80
Std. Dev.	0.15	69,167.71	88,544.29
Observations	115	115	115

Based on the table above, the observation value shows the amount of data used, namely 115 data, which is the number of samples during the observation period from 2015 to 2019. From this table, it can be observed that the average financial performance value is 0.076957.

Based on table 1 above, it can be concluded from the test results that the lowest financial performance is (0.370000) and the highest value is 0.410000. These results indicate that the magnitude of the growth in the financial performance of the districts/cities in the Aceh Province, which is the sample of this study, ranges from (0.370000) to 0.410000 with a mean value of 0.076957 and a standard deviation of 0.152524, so it can be seen that the lowest financial performance was in Pidie Jaya district in 2018. The highest was found in Southeast Aceh district in 2015.

4.2 Panel Data Analysis Test Results

The classical assumption test aims to analyse whether the regression model used in the study is the best. The classical assumption tests used are normality, multicollinearity,

heteroscedasticity, and autocracy. The results of the normality testing of this study indicate that the research data is usually distributed, or it can be said that the normality requirements can be met. This can be seen from Jarque-Bera on the normality test results of 2.277582 with a probability of 0.320206 above the 0.05 significance level. Therefore, the data of this study were usually distributed. The results of multicollinearity testing using the correlation test (r) shows that the above variable is higher than the correlation value above 0.85. Thus it can be concluded that the variable is free from multicollinearity. The results of the heteroscedasticity test are shows that the significance value of the independent variable has a probability value of more than 0.05, namely local revenue, it can be concluded that there is no heteroscedasticity problem. The results of the autocorrelation test show that the Durbin-Watson table = 5%, it can be seen that for equation one, there is no autocorrelation in the regression model because Durbin Watson's value is in the range of values dl d du (1.6788 < 1.684761 < 1.7133). Then for equation two, there is autocorrelation in the regression model because Durbin Watson's value is in the range of values dl d du (1.6606 < 2.085465 > 1.7313).

4.3 Panel Data Regression Model Selection

Panel data regression can be done with three standard, fixed, and random models. Each model has its advantages and disadvantages. The selection of the model depends on the assumptions used by the researcher and the fulfillment of the correct statistical data processing requirements so that they can be justified statistically. Therefore, the first step that must be done is to choose a model from the three available.

a. Chow Test Results

In this study, the Chow test determines which model is more appropriate to use between the standard effect model or the fixed effect model. In this test, the decision is made if the chi-square cross-section prob is more significant than 0.05, the more appropriate regression is the expected effect, and if the opposite is the chi-square cross-section prob is less than 0.05, the regression used is a fixed effect. The results of the chow test can be seen in the table below:

Table 2. Chow Test Results

No	Effects Test	Statistic	Prob	Decision
1	Regress 1 (PAD→BM)			
	Cross-section F	1.486398	0.0988	common effect
	Cross-section Chi-square	35.305673	0.0360	
2	Regress 2 ((PAD → BM → PKKD))			
	Cross-section F	1.114542	0.3471	fixed effect
	Cross-section Chi-square	27.437097	0.1951	

Based on the table above, it can be seen in regression one that the probability value of the Chi-square Cross-section is 0.0360 or less than 0.05, so the common effects model is more appropriate to use for regression 1 in this study. Then in regression 2, it can be seen that the probability value is The Chi-square cross-section is 0.1951 or greater than 0.05, so the fixed effects model is more appropriate for regression 2.

b. Hausman Test Results

In this study, the Hausman test determines which model is more appropriate to use between fixed effects or random effects. In this test, the decision is made if the chi-square

cross-section prob is more significant than 0.05, the more appropriate regression is the fixed effect, and if the opposite is the chi-square cross-section prob is less than 0.05, the regression used is a random effect. The results of the Hausman test can be seen in the table below:

Table 3. Hausman Test Results

No	Test Summary	Chi-Sq. Statistic	Prob	Decision
1	Regress 1 (PAD→BM)			random effect
	Cross-section random	0.001151	0.9729	
2	Regress 2 ((PAD → BM → PKKD))			fixed effect
	Cross-section random	15.005006	0.0001	

Based on the table above, it can be seen that the random cross-section probability value is 0.9729 or greater than 0.05, so the random-effects model is more appropriate to use for regression 1 in this study. Then the second regression shows that the random cross-section probability value is 0.0001 or less than 0.05, so the fixed effects model is more appropriate for regression 2.

From the above model testing results, the fixed effect was selected in this study, which was obtained from the results of the Chow and Hausman tests so that the model chosen was appropriate for testing in this study.

c. Hypothesis Testing Results

Hypothesis testing in this study is used to determine simultaneously and partially the effect of local revenue and capital expenditure variables on the growth of regional financial performance as proxied by the ratio of growth of regional financial performance in districts/cities in Aceh province. Hypothesis testing also determines the proportion of local revenue and capital expenditure variables in explaining changes in regional financial performance variables.

1) T-Test Results (Partial)

In this study, the t-test was used to test whether the local original income variable partially affected capital expenditure and whether the original local income partially affected the financial performance variable. This test is seen from each value of count against the table in determining the existing hypothesis or by comparing the probability value of each variable to its significance value of 0.05. If the probability of count > 0.05, H0 is rejected, and Ha is accepted. On the other hand, if the probability of count < 0.05, then H0 is accepted, and Ha is rejected. The results of the t-test can be seen in the table below:

Table 4. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PAD→ BM (a)	0.953021	0.080403	11.85305	0.0000
PAD→ PKKD (b)	1.30E-06	1.68E-07	7.731125	0.0000

Based on the table of t-test results above, it can be seen that the test results of the regional original income variable on capital expenditures with an at-count of 11.85305 and a probability level of 0.000. If viewed from the probability value of 0.000, which is smaller

than 0.05, then H0 is rejected; this means that local revenue influences capital expenditure. Then the test results of the regional original income variable on increasing regional financial performance with an at-count of 7.731125 and a probability level of 0.0000. If viewed from the probability value of 0.000, which is smaller than 0.05, then H0 is rejected. This means that local revenue influences improving regional financial performance.

2) R2 Test Results (Determination)

The value of R-Square is to see how the variation in the value of the independent variable is affected by the variation in the value of the dependent variable. The coefficient of determination determines the percentage of the influence of the independent variable with the dependent variable, namely by squaring the coefficients found. The results of statistical testing are as follows:

Table 5. *Coefficient of Determination*

R-squared	0.546802
Adjusted R-squared	0.538709

Based on the table of R2 test results above, it can be seen that the value of the determinant coefficient shows several 0.546802, which means that 54.68 percent of local revenue and capital expenditures in districts/cities in Aceh province can be explained by the variables of local revenue and capital expenditures. Other variables outside the F model explain the rest 45.32 percent.

3) Results of the Mediation Effect Detection Test Analysis

Mediation analysis in this study used the approach of Baron & Kenny, (1986) to ensure a direct and indirect relationship between the local original income variable and the increasing regional financial performance through the capital expenditure variable. Testing the mediation effect used the Sobel test. Based on the results of the first and second regressions, it shows that the regression coefficient of local revenue for capital expenditures is 0.95 with a standard error of 0.080 and a significance value of 0.000. Then for capital expenditures on improving regional financial performance, the coefficient value is 1.16 with a standard error of 1.64 and a significance value of 0.000. So original local income has a significant direct effect on capital expenditure, and significant capital expenditure directly affects regional financial performance. The following is the mediation test through the Sobel test of the path analysis model with the capital expenditure variable as the mediator. The Z value of the Sobel test cannot be generated directly from the regression results but by manual calculation using the Sobel test formula. This can be seen from the results of data processing using path analysis in the following table:

Table 6. Analysis Mediation Effect

Direct and Indirect Effect	Coefesien	Prob	Decision
Model (mediation BM on PAD→ PKKD)			
PAD→BM (a)	0,950	0.000	Partial
BM→ PKKD (b)	1,160	0.000	Mediation
PAD→BM→ PKKD (c)	0,706	0,240	

Based o the table 6 show that the Sobel test calculation of Z value is 0.706, because the Z value obtained is 0.0706 < 1.96 with a significance level of 5%, it proves that capital expenditure is not able to mediate the relationship between the influence of local revenue on improving regional financial performance.

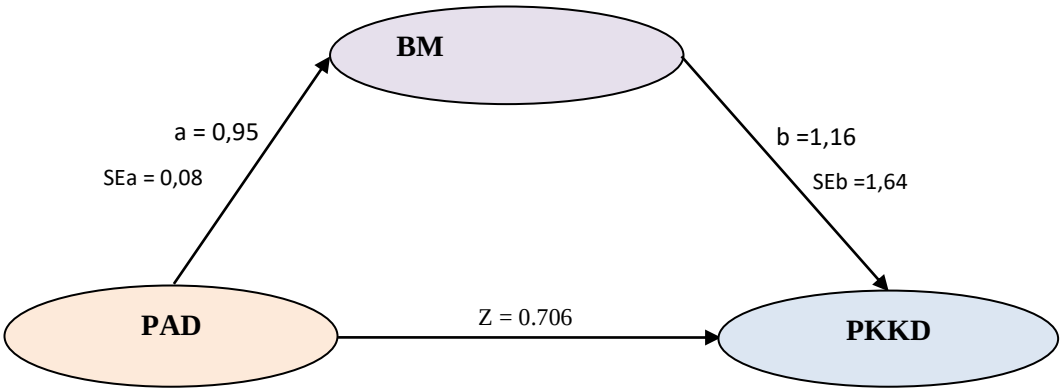

Figure 1. *Mediation Model*

4.4 Discussion

The proposed panel data regression model shows two hypotheses H1 and H2, with significant coefficient values ($p < 0.05$) based on the fixed effect test. The following table presents the coefficients of the panel data regress results.

Table 7. Panel Data Analysis Results

	Hypothesized	Coefficients	t-Statistic	Prob	Decision
1	PAD→BM	0.953	11.853	0.000	Supported
2	BM→PKKD	1.160	7.045	0.000	Supported

p < .0.05.

a. The Effect of Regional Original Income on Capital Expenditure

Based on the test results, it is shown that the local revenue for capital expenditure in the districts/cities in Aceh province has a coefficient of 0.95 with a probability value of 0.08. This shows that local revenue has a significant influence on capital expenditure in districts/cities in Aceh province in a positive direction or the same direction so that according to the results of the research, local revenue will affect capital expenditure, therefore H1 which states that local revenue has an effect a positive impact on capital expenditure is acceptable. This is in line with the results of research (Abid, Rahayu, & Aminah, 2018; Mutiah & Mappanyuki, 2015; Rochmatullah, Hartanto, & Arifin, 2016; Sholikhah, I., & Wahyudin, 2014; Sugiarthi & Supadmi, 2014), which states that PAD has a positive and significant effect on capital expenditures. This is very synergistic with the ability of local revenue to provide services to the region through the allocation of capital expenditures, namely in terms of the availability of adequate facilities and infrastructure, so that local revenue becomes one of the factors that determine the allocation of capital expenditures in all districts/cities in the region. The greater the realization of regional original income, the greater the capital expenditure issued by the regional government (Lastri, 2016).

b. The Effect of Capital Expenditure on Regional Financial Performance Growth

The test results show that capital expenditure on improving regional financial performance in districts/cities in Aceh province has a coefficient of 1.16 with a probability value of 1.64. This shows that capital expenditures have a positive but not significant effect on increasing regional financial performance. According to the research results, capital expenditures will affect the improvement of regional financial performance in districts/cities in Aceh province. Therefore, H2, which states that capital expenditure positively affects regional financial performance, is acceptable. This is in line with the research results (Amrozi, 2016; Andirfa, Basri, & Majid, 2016; Mulyani, S., dan Wibowo, 2017). This is in line with the regional government program, which states that the addition of the allocation of infrastructure funds in the regions will directly impact the growth of regional government financial performance and in terms of creating efficiency in the community productivity sector if the infrastructure improves.

c. The Effect of Regional Original Income on Improving Regional Financial Performance through Capital Expenditure

Based on the test results, it is shown that the local revenue for improving regional financial performance mediated by capital expenditure on improving regional financial performance in districts/cities in Aceh province has a coefficient of 0.706 with a probability value of 0.240. This shows that local revenue does not significantly affect regional financial performance mediated by capital expenditures. The H3, which states that local revenue has a positive but not significant effect on increasing regional financial performance mediated by capital expenditure, is accepted which means that capital expenditures partially mediate the relationship between local revenue and increased regional financial performance in districts/cities in Aceh province in 2015-2019.

V. Conclusion

The results showed that local revenue has a positive and significant effect on capital expenditure in districts/cities in Aceh province in 2015-2019; capital expenditures have a positive and significant effect on improving regional financial performance in districts/cities in the province of Aceh in 2015-2019. Capital expenditures partially mediate the relationship between local revenue and improvement of regional financial performance in districts/cities in Aceh province in 2015-2019.

This research recommends to the district/city governments in Aceh province to increase continuously local revenue by optimizing the potential of natural resources, human resources, and capital resources. District/city governments in Aceh province are expected to continue to make efforts to increase capital expenditures in the context of infrastructure development and development improvement of public facilities aimed at improving the welfare of the people in Aceh province.

The results of this study are expected to have implications for policymaking at the government, central and regional levels, coordination, and collaboration to immediately make effective policies through the preparation of a complete and integrated set of regulations accompanied by the implementation of regulations related to increasing regional original income to increase the financial independence of local governments. In regional autonomy, district/city governments can use various strategies to reduce dependence on the central government. These strategies include extensification and intensification of regional taxes and levies, optimizing the potential of regional original income through regional owned enterprises as well as optimizing the utilization of regional

assets. The central government, provincial governments, and district/city governments must also control personnel expenditures, and allocate effective capital expenditures to encourage regional economic growth.

This study has several limitations, so it can be refined in the next research in the future. Subsequent research can use a longer research year which allows the research results to be by the formulated hypothesis. Subsequent research can also elaborate on the use of theory and other variables such as the general allocation fund, budget surplus, financial distress and also perform other financial ratio analyses.

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