

# THE EFFECT OF REGIONAL ORIGINAL REVENUE, CAPITAL EXPENDITURE AND GENERAL ALLOCATION FUNDS ON THE FINANCIAL PERFORMANCE OF DAPIL 1 DISTRICT CITY OF WEST SUMATRA PROVINCE

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## Abstract

This study aims to determine the Regional Original Income, Capital Expenditure and General Allocation Funds on the Financial Performance of the District 1 Regency/City of West Sumatra Province. The data collection technique uses secondary data in the form of financial reports accessed through the official website [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id). The collected data was processed using the EViews 12 program. The population used in this study was the Electoral District 1 of the Regency/City of West Sumatra Province. The sample selection technique used purposive sampling technique and obtained 11 regions for 7 years with a total of 77 sample data obtained. The data analysis method used in this study was panel data regression analysis. The results of the study found that local revenue had an effect on regional financial performance, capital expenditure had no effect on regional financial performance and general allocation funds had a negative effect on regional financial performance of Electoral District 1 of the Regency/City of West Sumatra Province.

**Keywords:** *Regional Original Income, Capital Expenditure, General Allocation Fund, Regional Financial Performance*

## INTRODUCTION

Regional autonomy in Indonesia has grown rapidly since the enactment of Law Number 23 of 2014 concerning Regional Government. This law provides broader authority to regional governments in managing resources and finances, aiming to improve public welfare and the quality of public services. Regional financial performance is an important indicator for assessing the success of management and development at the regional level. After the reformation, Indonesia shifted from centralization to decentralization, which was emphasized in Law No. 23 of 2014. This law stipulates that regional government must be implemented based on the principles of decentralization, deconcentration, and assignment tasks. Decentralization is further defined in Law No. 1 of 2022 concerning Financial Relations between the Central and Regional Governments, which revises Law No. 33 of 2004. According to this regulation, decentralization means the division of government affairs between the Central Government, Provincial Governments, and Regency/City Governments.

The implementation of decentralization aims to accelerate economic development, reduce the gap between the center and regions, increase transparency in the use of APBD funds, encourage positive competition between regions, and stimulate innovation. The regional autonomy policy is intended so that regions can optimize their local potential. Regional autonomy, as defined in Law No. 23 of 2014, grants rights, authority, and responsibility to autonomous regions to regulate and manage government affairs and the interests of local communities in accordance with applicable regulations. It is hoped that the implementation of regional autonomy can increase the efficiency, effectiveness, independence, and accountability of the public sector in Indonesia (Fauzi, 2019). Regional finance is a measure of the success of local governments in utilizing resources to achieve sustainable development. The efficiency and effectiveness of public budget use are reflected in regional financial performance,

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which is measured through important components such as Regional Original Income (PAD), capital expenditure, and General Allocation Fund (DAU) (Mardiasmo, 2018). Electoral District (Dapil) 1 of West Sumatra Province has the authority to manage its government and development independently based on the principle of regional autonomy. Independence in regional financial management is expected to optimize regional potential and reduce dependence on the central government. Regional governments are required to be able to explore their own financial sources in order to carry out their functions and authorities, especially in financing government and development needs. Regional Original Income (PAD) is one of the main sources of this financing. PAD, which comes from regional taxes and levies, management of separated regional assets, and other legitimate sources, has an important role in supporting the running of government and improving community welfare. The greater the contribution of PAD to the APBD, the less the dependence of the regional government on central government assistance, as emphasized by Ekasuryana (2018). Below is a Table of Regional Original Income (PAD), Capital Expenditure and General Allocation Fund (DAU) of West Sumatra Province for 2017-2023.

**Table 1 PAD, Capital Expenditure and DAU of West Sumatra Province 2017-2023 (in billion rupiah)**

NO	YEAR	PAD	Capital Expenditure	General Allocation Fund (DAU)
1	2017	3,914.78	6,126.76	13,504.95
2	2018	4,555.75	5,542.41	13,525.16
3	2019	5,010.01	6,262.11	14,025.42
4	2020	5,232.30	5,715.49	12,764.89
5	2021	4,921.69	4,179.28	12,523.49
6	2022	5,349.69	4,353.56	12,526.01
7	2023	5,895.32	4,107.89	13,146.39

Source: <https://djpk.kemenkeu.go.id/> (data processed)

Based on the table above, it can be seen that the dynamics of Regional Original Income (PAD), Capital Expenditure, and General Allocation Fund (DAU) of West Sumatra Province during the 2017-2023 period reflect the complexity of regional financial management at the provincial level. West Sumatra Province's PAD shows a fluctuating trend, but in general has experienced a significant increase from IDR3,914.78 billion in 2017 to IDR5,895.32 billion in 2023. The Capital Expenditure Pattern of West Sumatra Province shows a different trend from PAD. After reaching its peak in 2017 with a figure of IDR 6,126.76 billion, Capital Expenditure experienced a fairly consistent decline until 2023. Meanwhile, the DAU of West Sumatra Province was relatively stable during the observation period, with figures ranging from IDR 12 trillion to IDR 14 trillion. The stability of the DAU shows the central government's commitment to ensuring equal distribution of regional fiscal capacity. However, high dependence on DAU can hinder regional fiscal independence in the long term.

Local Original Revenue (PAD), Capital Expenditure, and General Allocation Fund (DAU) are three important components in regional finance in Indonesia. In Electoral District (Dapil) 1 of West Sumatra Province, which covers 11 regencies/cities, PAD showed varying patterns during the 2017-2023 period, reflecting the dynamics of fiscal independence of each region. Capital Expenditure plays an important role in improving the quality of public services and driving economic growth. The effectiveness of Capital Expenditure can have a positive impact on infrastructure development and public welfare, while low budget absorption can hamper the development process.

DAU, as an important instrument in fiscal decentralization, aims to reduce disparities between regions. Its amount is calculated based on various factors such as population and geographical characteristics. Although it provides flexibility, the effectiveness of DAU utilization is very important to improve regional financial performance. Optimal use of DAU can encourage improved public services and infrastructure development. The following is a Table of Regional Original Revenue (PAD), Capital Expenditure and General Allocation Fund for Electoral District 1 Regency/City of West Sumatra Province 2017-2023

Local Original Revenue (PAD), Capital Expenditure, and General Allocation Fund (DAU) for Electoral District (Dapil) 1 of West Sumatra Province for the 2017-2023 period illustrate interesting financial dynamics in 11 regencies/cities. In terms of PAD, Padang City as the provincial capital consistently leads with the highest revenue, reaching a peak of IDR 989.90 billion in 2022. Tanah Datar and Pesisir Selatan Regencies also recorded quite high PAD, although fluctuating. Meanwhile, areas such as the Mentawai Islands, South Solok, Dharmasraya, Solok

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City, Sawahlunto, and Padang Panjang have lower PAD, ranging from IDR 40-100 billion. Interestingly, several areas such as the Mentawai Islands and Tanah Datar experienced a significant decline in PAD in 2020 and 2021. The trend of Capital Expenditure in Dapil 1 shows a unique pattern. In general, there was a decline from 2017 to 2020, then started to increase again after that. This may reflect macroeconomic conditions and national fiscal policies that influence regional spending priorities. Mentawai Islands and Pesisir Selatan, despite their high PAD, experienced a sharp decline in Capital Expenditure after initially being high. Padang City, with the highest PAD, also experienced a significant decline in Capital Expenditure, although it remained the highest in Electoral District 1. This phenomenon shows that high PAD is not always directly proportional to high Capital Expenditure. Factors such as changes in development priorities, spending efficiency, or project implementation constraints can affect the allocation of Capital Expenditure. Other regencies/cities in Electoral District 1 generally have lower Capital Expenditure, indicating limited fiscal capacity to fund infrastructure development.

Meanwhile, the DAU allocation for 11 regencies/cities in Electoral District 1 was relatively stable during 2017-2019. Regions with larger populations and areas such as Padang City, Pesisir Selatan, and Solok Regency received higher DAU. This is in accordance with the principle of equalizing DAU which considers regional spending needs based on population and area. Interestingly, in 2020 and 2021 a unique phenomenon occurred. Although the DAU of several regencies/cities decreased in 2020, possibly due to budget adjustments to deal with the COVID-19 pandemic, the DAU of West Sumatra Province actually increased significantly in 2021. This sharp increase was especially seen in Padang City, Pesisir Selatan Regency, and Solok Regency, indicating strong fiscal support from the central government in dealing with the impact of the pandemic and encouraging economic recovery.

After the 2021 spike, DAU was adjusted again in the following years, but remained higher than before the pandemic. This pattern shows the active role of the central government in supporting regional finances, especially during a crisis. However, high dependence on DAU can hamper long-term regional fiscal independence. Therefore, regional governments need to continue to optimize PAD and increase the efficiency of Capital Expenditure to reduce dependence on transfer funds. Local Original Income (PAD) as a reflection of regional fiscal independence has a significant influence on regional financial performance. Research conducted by Nur Samsia (2021) shows that PAD has a positive effect on the financial performance of local governments. This is because high PAD provides flexibility for local governments to finance various programs and activities, thereby encouraging increased efficiency and effectiveness of regional spending. Optimizing PAD can also reduce dependence on fiscal transfers from the central government, which ultimately contributes to improving the quality of public services and public welfare.

Capital expenditure plays a very important role in infrastructure development and increasing regional assets, which in turn can drive economic growth and improve regional financial performance. Kuntadi et al. (2022) in their research found that capital expenditure has a positive effect on regional financial performance. Effective and efficient allocation of capital expenditure for productive infrastructure projects can create jobs, increase regional competitiveness, and ultimately have a positive impact on financial performance indicators such as the fiscal independence ratio and efficiency ratio. However, it should be noted that the effectiveness of capital expenditure is highly dependent on good planning, implementation, and supervision.

The General Allocation Fund (DAU) as a fiscal transfer instrument from the central government aims to reduce the fiscal gap between regions and support the implementation of decentralization. However, the effect of DAU on regional financial performance can vary. Research conducted by Digdowiseiso et al. (2022) found that DAU had a negative effect on regional financial performance. This indicates that high dependence on DAU can hinder local government efforts to optimize PAD and increase spending efficiency. Therefore, local governments need to balance DAU with increased PAD and more effective and accountable financial management.

From the data attached above related to data on Regional Original Income (PAD), Capital Expenditure, and General Allocation Fund (DAU) of West Sumatra Province and Electoral District 1 during the 2017-2023 period, a number of phenomena have been revealed that are questionable in relation to regional financial performance. First, there is a significant disparity between the PAD of West Sumatra Province and the PAD at the district/city level in Electoral District 1. Although the PAD of West Sumatra Province shows a positive trend, several districts/cities in Electoral District 1 have actually experienced stagnation or even a decrease in PAD. This condition indicates a high dependence on fiscal transfers, especially DAU, and raises questions about the effectiveness of DAU in encouraging local government efforts to optimize local revenue sources and achieve fiscal independence.

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Previous research conducted by Maulida'arifina (2024) entitled "The Effect of Local Original Income, Balancing Funds, Capital Expenditures, and Economic Growth on the Financial Performance of Local Governments with Community Participation as a Moderating Variable (Case Study of Regencies/Cities in Central Java Province 2017-2023)" found several results that are relevant to this study. First, Local Original Income (PAD) was found to have a positive and significant effect on the financial performance of local governments. This shows that increasing PAD contributes to increasing the efficiency and effectiveness of regional spending. Second, Balancing Funds and Capital Expenditures did not affect the financial performance of local governments. This finding indicates that the effectiveness of the use of Balancing Funds and Capital Expenditures needs to be studied more deeply, because it does not always have a positive impact on financial performance. Maulida'arifina's (2024) research also shows that Community Participation can moderate the effect of PAD on regional financial performance, showing the importance of the active role of the community in regional financial management.

Then, previous research also conducted by Halmawati & Sari, BI (2021) showed that Regional Original Income (PAD), General Allocation Fund (DAU), and Regional Expenditure simultaneously have a significant positive effect on the Financial Performance of Regional Governments. This study confirms the importance of PAD in terms of regional fiscal independence and supports the hypothesis that increasing PAD will have a positive impact on financial performance. In addition, this study also highlights the role of DAU and Regional Expenditure as significant factors in determining financial performance.

## LITERATURE REVIEW

### The Influence of Regional Original Income on Regional Financial Performance

According to Law of the Republic of Indonesia Number 33 of 2004, regional original income is regional income obtained based on applicable regional regulations. Sources of income derived from regional original income are sources of funding in organizing government activities in a region. PAD is related to regional financial performance, as it is known that the higher the Regional Original Income, the Regional Government Financial Performance can be said to increase. If a region is able to utilize and optimize the potential of Regional Taxes, Regional Levies, Results of Management of Separated Regional Assets, and Other Legitimate Regional Original Income. This will show that the ability of a region to manage and optimize its potential income is good so that it will maximize regional government revenue which will later have an impact on the increasingly good Regional Government Financial Performance. This is in line with research conducted by Agustina (2018); Padang and Padang (2023) stated that regional original income has a positive and significant effect on regional financial performance.

H1: Local original income has a positive and significant effect on regional financial performance.

### The Impact of Capital Expenditure on Regional Financial Performance

According to Domestic Government Regulation Number 13 of 2006, capital expenditure is part of regional expenditure used to finance the development of regional fixed assets. Capital expenditure has a strong relationship to regional financial performance, this is because the government will carry out infrastructure development and facilities and infrastructure needed by the state, which is reflected in capital expenditure carried out by the government. Large capital expenditure is a reflection of the large amount of infrastructure and facilities built and this will run if regional finances also run smoothly, likewise what happens if the more development is carried out, it will increase the growth of regional financial performance, according to logic, the more sources that produce, the more results will be (Sari and Wati 2021). This is in line with research conducted by This is in line with research conducted by Holung et al., (2021); Nauw and Riharjo (2021) stated that capital expenditure has a positive and significant effect on regional financial performance

H2: Capital expenditure has a positive and significant effect on regional financial performance.

### The Influence of General Allocation Funds on Regional Financial Performance

General Allocation Fund is one part of the balancing fund. General allocation fund (DAU) is a fund from the State Revenue and Expenditure Budget (APBN) with the aim of funding special activities for regional government affairs in accordance with national interests. Padang & Wendi, (2023) concluded that the greater the general allocation fund, the greater the dependence of the regional government on the central government to meet the needs of its region. This will worsen the financial performance of the regional government. Research conducted



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by (Ginting et al., 2023) and (Machmud & Radjak, 2018) stated that general allocation funds have a negative effect on regional financial performance. However, this is not in line with research conducted by (Putri & Dyah, 2023) which states that balancing funds, one of which is the general allocation fund, have a positive effect on regional financial performance.

H3: Capital expenditure has a positive and significant effect on regional financial performance.

Research Hypothesis

From the framework of this research, a hypothesis will be formulated to provide direction and guidelines in conducting research. The hypothesis in this study is:

- H1` :There is a significant influence of Regional Original Income (PAD) on Regional Financial Performance in Electoral District 1 of Regency/City of West Sumatra Province.
- H2 :There is a significant influence of Capital Expenditure on Financial Performance Area in Electoral District 1, Regency/City of West Sumatra Province.
- H3 :There is a significant influence of the General Allocation Fund (DAU) on Regional Financial Performance in Electoral District 1 of the Regency/City of North Sumatra Province. West.

Conceptual Framework

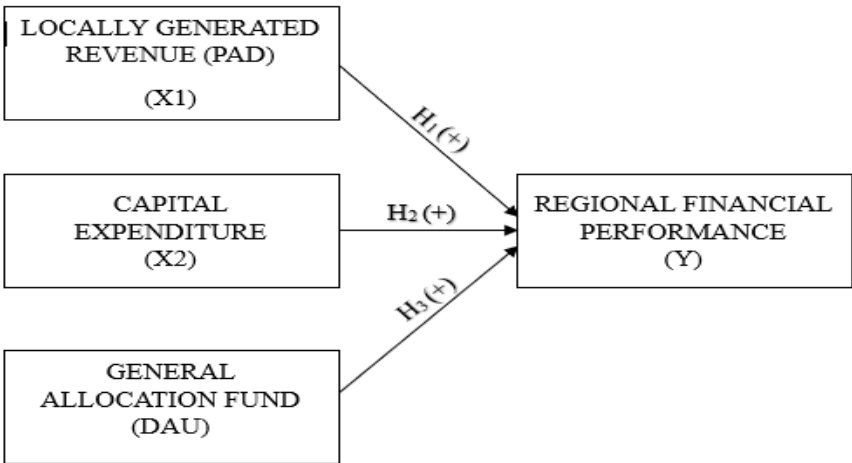


Figure 1 Conceptual Framework

METHOD

This research is a quantitative research that aims to test several hypotheses. The objects of this research are Regional Original Income (PAD), capital expenditure, general allocation funds and regional financial independence of Electoral District 1 of regencies/cities in West Sumatra Province during 2017-2023. The locations used to obtain the information needed in this research are through ([www.sumbar.bps.go.id](http://www.sumbar.bps.go.id)) and the official website of the Directorate General of Fiscal Balance, Ministry of the Republic of Indonesia ([www.djpk.depkeu.go.id](http://www.djpk.depkeu.go.id)).The population in this study were 11 districts/cities included in Electoral District 1 in West Sumatra Province for the period 2017-2023. This study used purposive sampling methodology to select its samples. Purposive sampling is a method of selecting individuals from a population based on certain criteria (Kurniawan & Puspitaningtyas, 2016).

This study uses quantitative data in the form of secondary data. Panel data is a combination of time series data and cross-section data. Time series data usually consists of one object or individual, which usually consists of several periods such as daily, monthly, quarterly and annually. Cross-section data consists of several or many objects, for example a company with several companies in a certain time period. The time series data in this study is from 2017-2023 (7 years of observation). While the cross-section data in this study are Regencies/Cities in Electoral District 1 of West Sumatra Province in 2017-2023. The secondary data used includes the annual financial reports of Regencies/Cities in Electoral District 1 of West Sumatra Province in 2017-2023. The data is sourced from the official website of the Directorate General of Fiscal Balance, Ministry of Finance ([www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id)) and the Central Statistics Agency (BPS) of West Sumatra Province. Secondary data is

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data obtained by researchers indirectly through other parties, such as government reports, statistical publications, and other data sources.

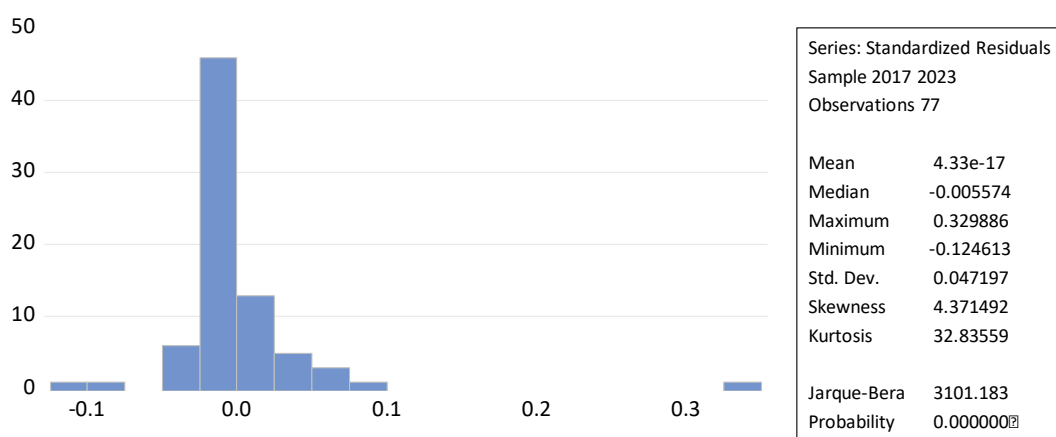
In this study, researchers conducted several data collection methods according to the problems studied. Data collection techniques in this study are by using the literature study and documentation methods. The literature study method is carried out by reviewing, observing, studying, and analyzing literature such as books, journals and sources from experts that are relevant to this study. Meanwhile, the documentation method is carried out using annual financial report data published by the government of Electoral District 1 of West Sumatra Regency/City.

## RESULTS AND DISCUSSION

### Classical Assumption Test

#### Normality Test

Figure 2 Normality Test Results



Source: Data Processed by Researchers, 2024

It can be seen in Figure 2 the results of the data normality test on each data seen from the probability value of each data. The results of the Regression study showed a probability value of  $0.0000 < 0.05$ , it can be concluded that the data is not normally distributed. According to Heryana (2023), one of the reasons the data is not normally distributed is because the data was collected from different populations, either by location or otherwise.

#### Autocorrelation Test

The results of the autocorrelation test using the Durbin-Waston test, it can be seen that the value is 1.230507. Where it is between 2 and -2. Where it can be concluded that the data used in this study does not show symptoms of autocorrelation.

#### Multicollinearity Test

Table 2 Multicollinearity Test Results

Variables	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000350	11.61275	NA
ROA	3.20E-27	4.418793	2.581214
DER	7.53E-27	11.91984	2.644756
EPS	2.16E-27	27.96602	3480062

Source: Data Processed by Researchers, 2024

Based on Table 2, it can be seen that all variables have a VIF value  $< 10$ , so it can be concluded that the regression model in the study does not show symptoms of multicollinearity.

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Table 3 Panel Data Regression

	Variable	Coefficient	Tsdt. Error	t-Statistic	Prob	
Panel	C	0.112194	0.018702	5.999122	0.0000	Data
	PAD	7.26E-13	5.66E-14	12.84109	0.0000	
	BM	-3.64E-14	8.68E-14	-0.303989	0.7620	
	DAU	-1.23E-13	4.65E-14	-2.651870	0.0098	

## Regression Analysis

Based on 3 the calculation results from the moderated regression analysis model 1 regression test are as follows:

$$KKD = 0.112194 + 7.26E13PAD - 2.64E14BM - 1.23E13DAU$$

The equation above can be explained as follows:

1. The results of the multiple linear regression equation above obtained a constant value (a) of 0.112194, which shows that when the independent variables, namely regional original income, capital expenditure and general allocation funds have constant values, then the value of the dependent variable of regional financial performance is 0.112194.
2. The regression coefficient of the local revenue variable has a positive value of 7.26E13, indicating a positive relationship to regional performance. This means that if local revenue increases by 1%, regional financial performance will increase by 7.26E13.
3. The regression coefficient of the capital expenditure variable has a negative value of -2.64E14, indicating a negative relationship to regional performance. This means that if capital expenditure increases by 1%, regional financial performance will decrease by 2.64E14.
4. The regression coefficient of the general allocation fund variable has a negative value of -1.23E13, indicating a negative relationship to regional performance. This means that if the general allocation fund decreases by 1%, regional financial performance will decrease by -1.23E13.

## Coefficient of Determination (R2)

The results of the Adjusted R-Squared value can be seen in the I Regression Analysis model in this study of 0.7863. This means that in this study the independent variables, namely local revenue, capital expenditure, and general allocation funds can explain the dependent variable, namely regional financial performance, by 78.63%, while the remaining 21.37% is explained by other variables not included in this study.

## The Influence of Regional Original Income (PAD) on Regional Financial Performance

The test results show that the ratio of local revenue partially affects the financial performance of the region of Electoral District 1 of the Regency/City of West Sumatra Province. The greater the PAD received by the region, the better the financial performance achieved, which reflects an increase in the fiscal capacity of the region to finance government and development activities independently, in accordance with the principles of regional autonomy. Regional financial performance itself illustrates the extent to which the regional government is able to manage and utilize financial resources to meet development needs, public services, and improve community welfare without relying too much on transfer funds from the central government.

The increase in PAD each year will make a significant contribution to the stability and fiscal independence of the region, strengthen the regional budget, and provide more flexibility in budget allocation for development projects that support local economic growth. Thus, regions can improve the quality of public services, improve infrastructure, and create wider employment opportunities, which in turn will improve the regional economy as a whole. PAD obtained from various legitimate sources, such as tax revenues, levies, and other revenues regulated in laws and regulations, has a very important role in improving regional financial performance. Regional taxes, levies, and other levies implemented based on regional regulations, in addition to being the main source of regional income, also show the extent to which regions are able to manage the economic sectors in their regions, such as the trade, services, industry, and tourism sectors. With optimal PAD management, regions can reduce dependence on balancing funds from the central government, while increasing

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## The Influence of Capital Expenditure (BM) on Regional Financial Performance

The test results show that the partial capital expenditure ratio does not affect the financial performance of the district/city of West Sumatra Province. Based on the results of the hypothesis test that has been carried out, it can be concluded that the capital expenditure activities carried out by the district/city in the district/city of West Sumatra Province during the period have not been fully able to contribute to improving the financial performance of the Regional Government. The use of the capital expenditure budget in each regional government is not fully directed at investment activities that can have a positive impact on the regional economy, such as procurement, improvement, or repair of physical facilities and infrastructure that support public services. Many capital expenditure projects are not focused on priorities that can increase the competitiveness of the local economy or support the growth of sectors that have the potential to generate regional income. As a result, the results provided from this capital expenditure have not been able to provide a significant positive value to improving regional financial performance. The projects implemented have not had a maximum impact on the regional economy and fiscal efficiency. As a result, the expected regional financial performance was not achieved optimally during the period. This is in line with research conducted by Agustina (2018); Padang and Padang (2023) stated that capital expenditure has no effect on regional financial performance.

## The Influence of General Allocation Funds on Regional Financial Performance

The test results show that the ratio of general allocation funds partially has a negative effect on the financial performance of the region in Electoral District 1 of the Regency/City of West Sumatra Province. This shows that fluctuations in DAU actually have a negative impact on regional financial performance, which can be caused by several factors. Although DAU comes from the APBN with the aim of equalizing finances between regions, in reality several regions in Electoral District 1 face challenges in managing these funds effectively. In some cases, the DAU allocation received is not always used optimally to support regional development or improve the quality of public services. In addition, high dependence on DAU can reduce the incentive for regional governments to explore the potential for regional original income (PAD), which in turn can worsen regional fiscal dependence on the central government.

This condition reflects a gap in regional financial management capabilities, where regions receiving DAU may not have sufficient capacity to plan and manage funds properly. This can also hinder regional initiatives to improve resources and infrastructure that can support local economic growth. In addition, although significant fund transfers are made by the central government, not all regions can utilize these funds efficiently, which has the potential to hinder regional efforts to increase their financial independence. Therefore, although DAU aims to improve financial equality between regions, poor management can actually worsen regional financial performance in Electoral District 1 of West Sumatra Regency/City. This is in line with research conducted by Sugiyanto and Musfirati (2021); Ginting et al., (2023) stated that general allocation funds have a negative effect on regional financial performance.

## CONCLUSION

Based on the data analysis that has been carried out in this study, the following conclusions can be drawn:

1. Local Original Income Partially Influences the Regional Financial Performance of Electoral District 1 of Regency/City of West Sumatra Province.
2. Capital Expenditure Partially Has No Impact on Regional Financial Performance of Electoral District 1 of Regency/City of West Sumatra Province.
3. General Allocation Funds Negatively Affect Regional Financial Performance of Electoral District 1 Regency/City of West Sumatra Province



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