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THE INFLUENCE OF REGIONAL DEBT AND CAPITAL EXPENDITURES ON FINANCIAL SUSTAINABILITY IN PROVINCIAL GOVERNMENTS IN INDONESIA

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Abstract : Financial Sustainability fluctuates every year in every province in Indonesia during the 2019-2022 period, indicating an increase or decrease in the quality and quantity of public services provided to the community. This study aims to reveal that regional debt and capital expenditure have an effect on financial sustainability. The type of research conducted is associative research that applies quantitative methods, using secondary data sources and using panel data. The population in this study consists of 34 provinces in Indonesia, and the sampling method applied is saturated sampling. The research findings indicate that regional debt has a negative impact on financial sustainability, while capital expenditure has a positive effect on financial sustainability.
Keywords: Local Debt, Capital Expenditure, Financial Sustainability.

INTRODUCTION

Based on Law of the Republic of Indonesia Number 4 of 2023 concerning Development and Strengthening of the Financial Sector, Sustainable Finance is defined as an ecosystem that receives comprehensive support, including policies, regulations, norms, standards, products, transactions and financial services. This concept aims to combine economic, environmental and social interests in funding sustainable activities and the transition process towards sustainable economic growth. According to (Abdullah & Meutia, 2023), Financial Sustainability refers to the government's capacity to maintain the health of state finances and provide services to the community in a sustainable manner. This is related to various factors including budget policy, income, debt expenditure, as well as social, economic and environmental aspects in the future. A study conducted by (Lhutfi & Sugiharti, 2022) revealed that economic and non-economic problems can affect financial sustainability at the local government level. To ensure that the government can make the right choices in improving services to the community, it is very important to understand the factors that can influence financial conditions, especially those related to regional financial sustainability. Ineffective regional financial management can disrupt the sustainability of provincial finances, which in turn can affect the financial stability of regional governments in the future and risk hampering services to the community. Various issues have emerged in society due to the economic crisis which, if not handled quickly, could affect overall government performance (Masnila et al., 2021).

Failure in local government finances refers to a financial management system that does not work well and is usually understood as the inability of local governments to increase their revenues to cover the costs incurred (Tri Wardhani, 2020). Financial management that is not optimal causes the financial situation of regional governments to become unstable, so that regional governments cannot provide the best services to

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their citizens. According to Syadullah & Yasin (2018), local governments must improve their ability to manage finances effectively and efficiently. This includes realizing revenue by allocating budgets according to needs, because each regional government needs to understand the specific situation and needs in its respective region. In addition, monitoring sources of financing or funds from the government has a crucial role in evaluating the state of government financial sustainability (Bisogno et al., 2019). Below is a Financial Sustainability diagram for provincial regional governments in Indonesia in the 2019-2022 period :

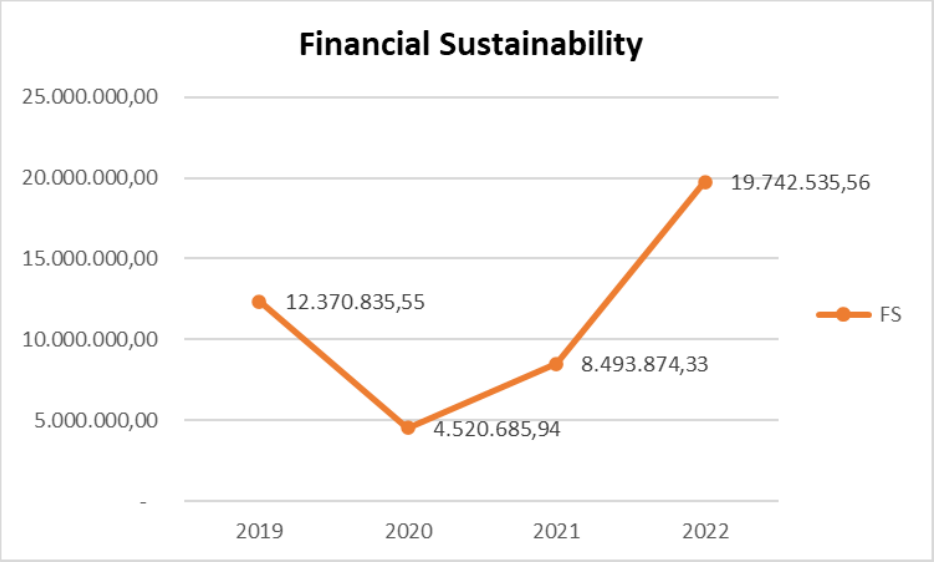

Figure 1. Financial Sustainability of Provincial Governments in Indonesia for the 2019-2022 period

Source: BPS and LKPD for the period 2019-2022 (data processed (Excel), 2024)

Financial Sustainability shown in Figure 1 experiences fluctuations every year in each province, which illustrates variations in the increase or decrease in the quality and quantity of public services received by the community. According to information taken from the djpb website. Ministry of Finance, regional financial sustainability is an important factor in achieving sustainable development. Good regional finances enable local governments to provide quality public services, such as in the education, health and infrastructure sectors, which in turn support community welfare and sustainable development. Good regional financial conditions enable regional governments to provide quality public services, such as in the fields of education, health and infrastructure. This supports community welfare and sustainable development in the context of implementing regional autonomy.

Regional governments in Indonesia currently function as executors of government affairs based on the principle of autonomy and assistance duties with an emphasis on broad autonomy (Mayasari & Febriantoko, 2018). The implementation of regional autonomy aims to accelerate the achievement of community welfare and increase competition between regions (Dewata et al., 2018). More effective management needs to be supported by work programs that are in line with the organization's main goals

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(Masnila et al., 2022). In this context, effective management in supporting work programs to increase the competitiveness of a region can be achieved by improving services to the community through the provision of built facilities. According to Dewata et al (2018), high capital expenditure reflects the amount of infrastructure and facilities that have been built. Regional governments need financial sources to support and implement development programs in their regions. One source of financing can come from loans or debt obtained from external parties (Jauhari & Dewata, 2019).

Although there have been several studies, further and in-depth researchers are still needed to examine the influence of variables that affect financial sustainability because the need for research related to financial sustainability is still very much needed considering that local governments are service providers in ensuring the health, safety, welfare, and quality of life of the community (Abdullah & Meutia, 2023). The independent variables used in this research are regional debt and capital expenditure, meanwhile The sample used in this research was provincial regional governments in Indonesia for the 2019-2022 period.

Apart from that, this research is different from several previous studies in that the research of Abdullah et al, (2023), Subires et al, (2019), and Dollery & Grant (2016) does not emphasize independent variables related to finance or accounting but focuses more on social- Demographics and regional integration. Variables related to local government finances need to be studied to determine whether the financial management carried out by local governments will have an impact on the government's ability to provide services. In addition, factors that come from within the local government are easier to control. In maintaining financial sustainability, it is important for local governments to have a comprehensive strategy in debt management, prioritize efficient and productive capital expenditures, and conduct continuous monitoring and evaluation of their financial performance.

Continuously increasing debt can indeed become a serious problem in terms of financial sustainability and the government's ability to serve society well. Meanwhile, improvements in public services are often measured through various indicators, one of which is the allocation of capital expenditure. Capital expenditure functions to invest in infrastructure, equipment and facilities that are important to improve the quality and quantity of public services. If the portion of capital expenditure decreases, there are several potential impacts that could occur. So the formulation of the research problem is whether regional debt has a negative effect on financial sustainability and whether capital expenditure has a positive effect on financial sustainability. It is hoped that the results of this research will contribute to provincial regional governments in Indonesia.

Literature Review And Hypothesis Development

Goal-Setting Theory

Goal Setting Theory is part of motivation theory which was first proposed by Locke in 1968. This theory explains the relationship between the goals set and performance in carrying out tasks (Aulia, 2020). Goal Setting Theory is a concept that suggests that setting challenging goals or high performance standards can be measured as a way to improve performance, taking into account the existing level of ability. If the regional authority is confident in its ability to achieve the specified targets, then this confidence will have an impact on the steps taken and influence future sustainability. Therefore, the government will evaluate the factors that drive financial sustainability, especially internal

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factors identified in financial reports. According to the Goal Setting Theory approach, setting achievable goals in the strategic plan will greatly support local governments in achieving financial sustainability, so as to provide sustainable services in the future. Thus, this research highlights Financial Sustainability as a target to be achieved, while Regional Debt and Capital Expenditure act as determining factors. The greater these determining factors, the greater the opportunity to achieve the goal.

Hypothesis Development

The Influence of Regional Debt on Financial Sustainability

Local debt is the amount of funds that must be paid by the Local Government and/or the responsibility of the Local Government which can be expressed in the form of money, in accordance with the provisions of laws and regulations, agreements, or other legally recognized reasons.

Financial Sustainability focuses on assessing the ability of local governments to organize and maintain public services. The measure of sustainability is related to the availability of sufficient funds to finance government operations and services to the community, without having to increase debt which could have an impact in the future. This is in line with the concept of Goal Setting Theory which is based on evidence which assumes that goals (desired states or visions for the future) are an important element in taking action. In this case, regional debt is considered a key factor related to Financial Sustainability as a target to be achieved without increasing short-term debt every year.

A study conducted by Tang (2022) revealed that financial sustainability plays an important role in reducing local government debt burdens and encouraging sustainable economic growth. A study conducted by Subires et al. (2019) shows that the composition of income and expenditure, as well as the origin of debt, have an influence on financial sustainability. Referring to the explanation that has been presented, this research develops a hypothesis related to regional debt and financial sustainability which is formulated as follows:

H1: It is suspected that regional debt has a negative effect on the financial sustainability of Provincial Governments in Indonesia for the 2019-2022 period.

The Effect of Capital Expenditures on Financial Sustainability

Capital expenditure is a budget allocation to acquire or increase fixed assets and/or other assets that provide economic benefits for more than one accounting period (12 months) and exceed the minimum capitalization value threshold determined by the Government.

Financial Sustainability emphasizes the evaluation of local governments' ability to provide and sustain public services. This assessment relates to financial statements in LKPD that are adequate to support government operations and services to the community, without increasing debt that can have a negative effect in the future. This statement is in line with the concept of Goal Setting Theory which is supported by evidence that considers that goals (expected states or ideas for the future) are important elements in taking action. This is related to Capital Expenditure as a key factor in assessing a region's ability to balance current assets in meeting short-term obligations, with Financial Sustainability as a target to be achieved without increasing short-term debt every year.

Research conducted by Dollery & Grant (2019)found that to achieve Financial

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Sustainability, there are two important elements that must be met, namely capital expenditure and adequate operational costs. Based on the relationship between theory and adjustments to previous research, this study formulates a hypothesis related to capital expenditure and financial sustainability as follows:
H2: It is suspected that Capital Expenditure has a positive effect on Financial Sustainability in Provincial Governments in Indonesia for the 2019-2022 period.

METHODS

Population and sample

In this study, the population studied includes all provincial regional governments in Indonesia during the period 2019 to 2022, totaling 34 provinces. In this study, the sampling method applied was nonprobability sampling with a saturation sampling approach. Saturated sampling refers to a sampling method that involves using all members of the population as a sample. The aim of applying this technique is to obtain a sample that reflects all the characteristics and variations found in the population, so that the sample can be considered representative of the population as a whole. In this research, the sample used includes 34 provinces in Indonesia, relying on data from Regional Government Financial Reports that have been audited from 2019 to 2022.

Data collection technique

The data collection method in this research was carried out by utilizing secondary data obtained through documentation techniques. According to Sugiyono (2022:9), the documentation method is a recording of events that occurred in the past, which can be in the form of writing, drawings or historical works from certain individuals. Information is collected through analysis of data obtained from secondary sources, which will then be recorded and calculated. The information used in this research was obtained from the official BPS website. goid and ppidbpkgoid Audited LKPD data was obtained by submitting a request via email to BPK RI, then recorded using Microsoft Excel and analyzed using Eviews 12.

Operational definition of research variables

Dependent Variable

The dependent variable or often called the output, criterion, consequent variable or in Indonesian is often called the dependent variable. The dependent variable is the variable that is influenced or is the result, because of the existence of the independent variable (Sugiyono, 2022:69). The dependent variable is symbolized by the letter Y. The dependent variable used in this research is Financial Sustainability (Y).

Financial Sustainability in this research is the variable that is the main focus or the variable that wants to be studied in relation to other independent variables. The formula for calculating Financial Sustainability (FS) can vary depending on the indicator or metric used to measure it. The measurement of Financial Sustainability in this study refers to the research of Rodriguez Bolivar et al. (2016) in Abdullah & Meutia (2023) which uses the surplus income contained in the Operational Report with the following formula:

$$FS = \frac{Operating\ Surplus - Extraordinary\ Income + Extraordinary\ Expenses}{}$$

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Independent Variable (X)

Independent variables, also often called stimulus, predictor or antecedent variables, in Indonesian are called independent variables. According to Sugiyono (2022:69), an independent variable is a free variable that influences or is the cause of changes or emergence of the dependent (dependent) variable. In a research context, an independent variable is a variable that is assumed to have an influence on the dependent variable and is the focus in understanding the relationship between variables in a study. The independent variable is symbolized by the letter X. There are 2 (two) independent variables used in this research, namely: Regional Debt (X_1) and Capital Expenditure (X_2). Total regional debt ratio as an indicator for regional government debt and total capital expenditure ratio as an indicator for local government spending. The following is the formula for the independent variable in this research:

Table 1. Formula for the independent variable

Variable	Mean
Regional Debt (X^1)	Total Regional Debt = Long-Term Debt + Short-Term Debt + Other Obligations
Capital Expenditures (X^2)	Total Capital Expenditure

Source : local government regulations (processed), 2024

Analysis techniques

This research begins with model selection testing, then continues with classical assumption testing. Based on the results of the analysis of basic assumptions which include normality test, multicollinearity test, and heteroscedasticity test, it can be concluded that overall, the data used in this study does not show any problems related to these tests. Therefore, the regression equation used is considered valid. This study applied a multiple regression model to analyze the impact of independent variables (X) consisting of multiple elements on the dependent variable (Y), with the formula formulated as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$

Information:

Y = Financial Sustainability
A = Constant
β_1, β_2 = Coefficient regression from every variable independent
X_1 = Regional Debt
X_2 = Capital Expenditures
e = *error*

The last test is hypothesis testing which consists of : determination coefficient test ($R2$) and partial test (t Statistical Test).

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RESULTS AND DISCUSSION

Descriptive Analysis

This study was carried out in 34 provinces in Indonesia which met the criteria for sample selection. The information used in this research was obtained from the Indonesian Financial Audit Agency (BPK), which can be contacted via email eppid@bpk. goid, as well as from the Central Statistics Agency (BPS) via the official bps website. goid The results of this data analysis are presented in the form of a descriptive statistical table which provides a concise overview of the data, including the average, standard deviation, lowest value and highest value of the independent and dependent variables, which can be seen in table 2:

Table 2. Descriptive Statistics

Variable	Mean	Minimum	Maximum	Observations
Regional Debt	26.97376	24.39041	30.62552	136
Capital Expenditures	27.62582	25.89569	30.07787	136
Financial Sustainability	11.72301	8.445426	16.30595	136

Source: Processed output (Eviews 12), 2024

Based on the descriptive statistical analysis that has been carried out, it can be observed that for the Regional Debt variable (X1) there is a maximum value of 30.62552, a minimum value of 24.39041, and an average (mean) value of 26.97376, with a total number of observations reached 136. Thus, it can be concluded that the province with the highest regional debt in 2021 is DKI Jakarta. Meanwhile, the provincial government that has the lowest regional debt in 2022 is DI Yogyakarta, which shows that in that year most of DI Yogyakarta provinces succeeded in reducing the amount of existing debt. This decline may indicate local governments' efforts to manage their finances more efficiently and reduce dependence on loans to finance operational and development activities.

Capital expenditure variables can contribute to increasing regional financial capacity, reducing disparities in financial capacity between regions, and improving the quality of public services. According to table 1, the capital expenditure variable (X2) shows a maximum value of 30.07787, a minimum value of 25.89569, with an average value (mean) of 27.62582, and a total of 136 observations. The provincial government with the highest capital expenditure in 2019 it is DKI Jakarta. This shows a commitment to improving infrastructure and public services in the area, including the construction of roads, bridges, health facilities, education, access to clean water, as well as various other development projects.

The Financial Sustainability (Y) variable is the government's ability to provide services now without compromising its ability in the future. The measure of financial sustainability reflects the capacity of local governments to maintain the quality of services provided to their citizens. The greater the financial sustainability figure, the more the local government's ability to provide public services, such as infrastructure development, networks, equipment, etc., increases. The financial sustainability variable has the highest value reaching 16. 30595, while the lowest value for this variable is 8. 445426. The financial sustainability variable has an average of 11.72301, with a total of 136 observations. The regional government with the highest financial sustainability indicators in 2022 is DKI Jakarta. This shows that in that year, DKI Jakarta had good capabilities in

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long-term financial management. With this capability, local governments can fulfill their financial obligations while supporting sustainable development and community services.

Selection of Panel Data Models

This test is carried out through two types of tests, namely the Chow test and the Hausman test. Below is a table showing the results of selecting a panel data model:

Table 3. Panel Data Regression Model Selection Table

Panel Data Regression Model	Mark Prob >/< Mark Sig	Selected approach
Test *Chow*	0.0000 < 0.05	*FEM*
Test *Hausman*	0.0029 < 0.05	*FEM*

Source: Processed output (Eviews 12), 2024

In Table 3, the probability value of the Chow test is recorded as 0.0000, which is smaller than 0.05. Therefore, the model chosen is the Fixed Effect Model (FEM). After determining the FEM model, the researcher continued with the Hausman test. In the Hausman test, a probability value of 0.0029 is obtained which is smaller than 0.05, so the model chosen is the Fixed Effect Model (FEM). Because the FEM model was selected from the Hausman test, researchers can immediately proceed with classical assumption testing and hypothesis testing (Ismanto and Pebruary, 2021:121). The results of testing the classical assumptions in this research show that the data has a normal distribution and does not experience multicollinearity and heteroscedasticity problems.

Multiple Linear Regression Analysis

Multiple linear regression analysis is a method used to determine how much influence two or more independent variables have on one dependent variable. The following table shows the multiple linear regression equation:

Table 4. Multiple Linear Regression Test Results

Variable	Coefficient	t-statistic	Probability
C	17.71780	2.059259	0.0421
Regional Debt	-0.339479	-2.662583	0.0090
Capital Expenditures	0.114467	1.985436	0.0492
Adjusted R-squared	0.545544		
F-statistic	5.630234		
Prob (F-statistic)	0.000000		

Source: Processed output (eviews 12), 2024

Based on table 4, it can be concluded that the regression equation in this study is as follows:

FS = 17.71780 – 0.339479*UD + 0.114467*BM

Information :

FS : *Financial Sustainability*
UD : Regional Debt
BM : Capital Expenditures

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The regression equation is interpreted as follows:

1. The regression constant value is 17.71780, this shows that if the regional debt and capital expenditure variables have a value of 0, then the value of financial sustainability has 609an independent value of 17.71780.
2. The regression coefficient for the regional debt variable is -0.339479, this shows that for every decrease in regional debt by 1 unit, it will reduce financial sustainability by -0.339479 units assuming the 609other independent variables have constant values.
3. The regression coefficient for the capital expenditure variable is 0.114467, this shows that for every increase in capital expenditure of 1 unit, it will increase financial sustainability by 0.11447 units, assuming the 609 other independent variables have constant values.

The following table shows the regression equation for each province in Indonesia:

Table 5. Regression Equation for each Province

Province	Fixed Effect (Cross)	Regression Equation for each Province
Aceh	0.874002	0.874002 - 0.339479*(1) + 0.114466*(1) = 0.648989
Bali	0.152026	0.152026 - 0.339479*(1) + 0.114466*(1) = -0.072987
Banten	-0.696063	-0.696063 - 0.339479*(1) + 0.114466*(1) = -0.921076
Bengkulu	-0.542939	-0.542939 - 0.339479*(1) + 0.114466*(1) = -0.767952
DKI Jakarta	-0.00057	-0.00057 - 0.339479*(1) + 0.114466*(1) = -0.225583
Gorontalo	-0.640471	-0.640471 - 0.339479*(1) + 0.114466*(1) = -0.865484
Jambi	-0.705529	-0.705529 - 0.339479*(1) + 0.114466*(1) = -0.930542
West Java	4.023775	4.023775 - 0.339479*(1) + 0.114466*(1) = 3.798762
Central Java	-0.044261	-0.044261 - 0.339479*(1) + 0.114466*(1) = -0.269274
East Java	-1382608	-1382608 - 0.339479*(1) + 0.114466*(1) = -1382608.225
West Kalimantan	-0.610655	-0.610655 - 0.339479*(1) + 0.114466*(1) = -0.835668
South Kalimantan	-0.177416	-0.177416 - 0.339479*(1) + 0.114466*(1) = -0.402429
Central Kalimantan	0.274924	0.274924 - 0.339479*(1) + 0.114466*(1) = 0.049911
East Kalimantan	-0.129678	-0.129678 - 0.339479*(1) + 0.114466*(1) = -0.354691
North Kalimantan	1.779788	1.779788 - 0.339479*(1) + 0.114466*(1) = 1.554775
Kep. Bangka Belitung	0.734124	0.734124 - 0.339479*(1) + 0.114466*(1) = 0.509111
Riau islands	0.07116	0.07116 - 0.339479*(1) + 0.114466*(1) = -0.153853
Lampung	-0.517535	-0.517535 - 0.339479*(1) + 0.114466*(1) = -0.742548
Maluku	0.07116	0.07116 - 0.339479*(1) + 0.114466*(1) = -0.153853
North Maluku	0.557196	0.557196 - 0.339479*(1) + 0.114466*(1) = 0.332183
West Nusa Tenggara	-1584192	-1584192 - 0.339479*(1) + 0.114466*(1) = -1584192.225
East Nusa Tenggara	-0.7032	-0.7032 - 0.339479*(1) + 0.114466*(1) = -0.928213
Papua	2.098201	2.098201 - 0.339479*(1) + 0.114466*(1) = 1.873188
West Papua	0.489729	0.489729 - 0.339479*(1) + 0.114466*(1) = 0.264716
Riau	-1331168	-1331168 - 0.339479*(1) + 0.114466*(1) = -1331168.225

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Province	Fixed Effect (Cross)	Regression Equation for each Province
West Sulawesi	-0.715258	-0.715258 - 0.339479*(1) + 0.114466*(1) = -0.940271
South Sulawesi	-0.374134	-0.374134 - 0.339479*(1) + 0.114466*(1) = -0.599147
Central Sulawesi	-0.329022	-0.329022 - 0.339479*(1) + 0.114466*(1) = -0.554035
Southeast Sulawesi	1.001082	1.001082 - 0.339479*(1) + 0.114466*(1) = 0.776069
North Sulawesi	-0.133626	-0.133626 - 0.339479*(1) + 0.114466*(1) = -0.358639
West Sumatra	-0.380076	-0.380076 - 0.339479*(1) + 0.114466*(1) = -0.605089
South Sumatra	-0.27863	-0.27863 - 0.339479*(1) + 0.114466*(1) = -0.503643
North Sumatra	-0.804663	-0.804663 - 0.339479*(1) + 0.114466*(1) = -1.029676
Yogyakarta	-0.112275	-0.112275 - 0.339479*(1) + 0.114466*(1) = -0.337288

Source: Processed output (eviews 12), 2024

Judging from Table 5, the Regression Equation for each Province shows that the financial sustainability of West Nusa Tenggara province has the lowest value of -1584192,225, meaning that there are major challenges in regional financial stability and negative values like this indicate an imbalance between income and expenditure, as well as extraordinary expenses that can affect the long-term financial stability of the region. Meanwhile, DKI Jakarta province has the highest value in financial sustainability, which is 3.798762, which means that this region has excellent performance in terms of financial stability and management and is able to manage its financial resources effectively and efficiently. This positive value indicates that DKI Jakarta is in a very good position in terms of financial management and stability compared to other provinces.

Hypothesis Testing

The results of hypothesis testing in this study presented in table 4 t test show that for the regional debt variable, the calculated t value is greater than the t table (-2. 2562 > 19778) with a significance level below 0.05. Thus, H1 is accepted and H0 is rejected. Therefore, the local debt variable has a significant negative impact on financial sustainability in isolation. For the capital expenditure variable, the calculated t value was obtained which was greater than the t table (1.9854 > 1.9778) with a significance level of less than 0.05, so that the H2 hypothesis was accepted and the H0 hypothesis was rejected. Thus, the capital expenditure variable has a positive and significant impact on financial sustainability separately. The coefficient of determination value shows that the independent variable, which consists of regional debt and capital expenditure, is able to explain the financial sustainability variable in Indonesian regional government by 54.5544%, while the remaining 45.4456% is explained by other variables not included in this research model.

The Effect of Regional Debt on *Financial Sustainability*

This study utilizes the total regional debt ratio as an indicator for regional government debt. Based on previous research, regions that have high levels of debt tend to be unable to provide public services of adequate quality and quantity to the community. First, research conducted by Babatunde et al. (2021) shows that government debt has a significant negative impact on financial sustainability. They also emphasized that the

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level of government in Nigeria must reduce public debt, as this has a significant negative impact on the country's public spending. This research indicates that in the long term, public spending in Nigeria could be detrimental to financial sustainability, where increasing total public debt actually hinders economic growth in Nigeria. In other words, economic growth usually declines due to increasing government debt to local and foreign creditors.

Furthermore, research from Subires et al. (2019) show results that the evolution of regional debt structures has a negative impact on financial sustainability, the source of debt is a risk factor because its evolution over time may depend on negotiations with the central government or with financial institutions, as well as spending priorities in their policies. A greater ratio of financial debt reduction to commercial debt reduction and an increase in short-term debt compared to long-term debt can lead to financial unsustainability. Another research from Tang (2022) states that there is heterogeneity in the impact of regional government debt on financial sustainability where regional government debt significantly hinders local real economic development and supports real economic development in the environmental economic sector. Then the impact of local government debt crowding-out on the real regional economy is that the scale of local government debt in China has reached or exceeded a reasonable threshold. This is because regional income owned by the government is not only used for direct or indirect spending but is also used to repay high-value regional loans.

Based on the test results of this research, there is a negative influence between regional debt variables and the financial sustainability of provincial regional governments in Indonesia, this is in line with previous researchers and grand theory. High or low local government debt affects the ability of local governments to provide services to the community in a sustainable manner. This means that the higher regional debt, the negative impact it will have on financial sustainability because it can put pressure on regional financial balance and limit their ability to provide optimal public services to the community. High regional debt also causes failure in financial sustainability, this will get worse if the government fails to reduce the deficit by increasing taxes and reducing government spending then there will be additional debt, if it is not followed by steps that encourage economic growth or improve fiscal policy there will be This results in a reduction in public services which can make it difficult for the government to build long-term financial sustainability and reduce flexibility in facing unexpected economic challenges. Therefore, it is important for local governments to manage their debt wisely so as not to become dependent on debt which will have a negative impact on financial sustainability.

The Effect of Capital Expenditures on *Financial Sustainability*

Capital expenditure is related to effective regional budget management. Local governments can reduce expenditure to produce optimal results. A significant increase in capital expenditure will result in an increase in the amount of other regional expenditure. The increasing capital expenditure from regional governments shows an indication of financial sustainability at the regional government level in Indonesia. When local governments carry out minimal capital expenditure, the budget allocated for public services is likely to be larger.

First, a study conducted by Dollery & Grant (2019) indicates that capital expenditures have a positive impact on financial sustainability. However, they emphasize

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the importance of interpreting financial sustainability carefully, given the existence of inconsistencies in asset valuation procedures. A city's annual financial performance is considered sustainable if capital expenditure to renew or replace existing assets is on average nearly in line with the annual depreciation rate set by the local government. Tightness in capital expenditure budgets compared to annual depreciation may cause future ratepayers to face excessive cost pressures when required to replace or renew non-financial assets owned by local governments.

Second, in a study conducted by Kadafi et al. (2020), it was found that spending on capital had a positive effect on the quality of services provided to the community. However, in East Kalimantan province, during the 2015 to 2019 period, the influence value was recorded at 0.18. This figure is categorized as low status, which indicates that districts/cities in East Kalimantan Province do not yet have adequate financial capacity to support regional development financing. The highest average in the last five years was obtained by Balikpapan City with a value of 0.44. A study conducted by Sholikhah (2014) shows that effective financial management acts as a source of financing for regional expenditure, especially for capital expenditure, which aims to improve facilities and infrastructure in public services. Improving the quality of public services is one measure of effective government performance as a form of accountability to the community. In other words, reducing the budget allocation for capital expenditure from year to year will result in a decline in both the quality and quantity of public services received by the community.

According to the findings of this research, there is a significant impact between capital expenditure and the financial sustainability of local governments in Indonesian provinces. This is in line with previous research and existing major theories. In other words, the greater the capital expenditure, the better the regional financial resilience, because capital expenditure is generally allocated for crucial long-term infrastructure investments. Adequate facilities can strengthen the attractiveness of an area, attracting investment in infrastructure sectors such as roads, bridges, clean water supplies and sanitation systems. This can improve connectivity and accessibility of an area, support economic development, and improve the quality of life of residents. Adequate facilities can invite investment from the private sector, open up job opportunities and improve people's living standards. This can ultimately contribute to economic growth and increased regional income.

In order for this positive impact to be achieved, it is very important to carry out proper planning, assess effective risk management, and carry out careful supervision of the implementation of investment projects. Capital expenditures must use adequate internal sources of income or through carefully managed loans. In addition, capital expenditure management must be carried out efficiently and transparently so that these funds can be used for projects that provide maximum benefits for society. In addition, it is critical to ensure that resource allocation for capital expenditure is in line with local government capacity to fund and maintain such infrastructure and services over the long term .

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CONCLUSION

The research findings indicate that regional debt has a negative impact on financial sustainability. As regional debt increases, it creates pressure on the financial balance of the region, limiting its ability to provide optimal public services. This can undermine long-term financial stability and sustainability. On the other hand, capital expenditure has a positive effect on financial sustainability. Higher capital expenditure, which is typically used for infrastructure investments, supports long-term development and enhances the region's financial sustainability. Overall, the findings highlight the importance of managing regional debt carefully while ensuring that capital expenditure is used effectively to promote long-term financial stability.

The limitation of this study lies in the number of variables that are still limited in influencing financial sustainability. Therefore, for further research, it is recommended to add other independent variables that are relevant in the context of the government sector.

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