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The Influence of Service Solvency and Financial Independence on Financial Sustainability in Provincial Governments on the Island of Sumatra

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Abstract: This study aims to analyze the influence of service solvency and financial independence on financial sustainability. Financial sustainability is the ability of a local government to fulfill its obligations in providing services to the public, both now and in the future. Factors such as service solvency and independence are believed to influence financial sustainability in provincial governments on the island of Sumatra. This study used a quantitative approach with a saturated sampling technique involving 10 provincial governments on the island of Sumatra. Data were collected through the e-PPID website of the Supreme Audit Agency of the Republic of Indonesia (BPK RI) in the form of Audit Reports of the Republic of Indonesia for 2019-2023. Data were analyzed using panel data multiple regression to examine the relationship between variables. The results indicate that service solvency and financial independence, both partially, have a positive and significant effect on financial sustainability. Simultaneously, service solvency and financial independence have a significant effect on financial sustainability. This study concludes that improving service solvency and financial independence can enhance and promote financial sustainability. Therefore, local governments need to continue improving these two factors to encourage good, equitable, and high-quality public services, thus supporting financial sustainability.

Keywords: Service Solvency, Financial Independence, Financial Sustainability.

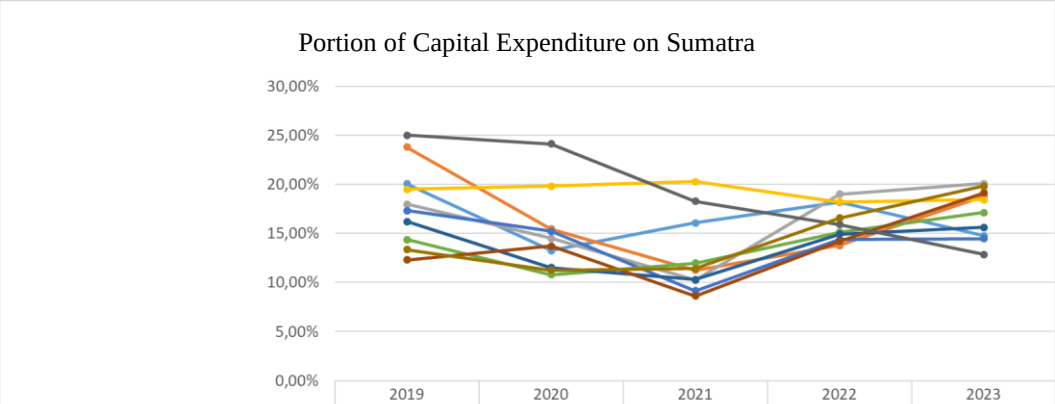
INTRODUCTION

Indonesia's regional autonomy policy is regulated by Law Number 23 of 2014 concerning Regional Government. This law affirms that Indonesia consists of provinces and regencies/cities, each with the authority to regulate and manage government affairs and public interests independently based on the principles of autonomy and assistance. The goal is to accelerate the realization of public welfare through improved public services, community empowerment, and increased regional competitiveness.

Local governments must distribute capital expenditures via the Regional Revenue and Expenditure Budget (APBD) to enhance the quality of public services. Ang et al. (2016) assert that capital expenditure funds are essential for augmenting fixed assets that facilitate governmental services. Government Regulation Number 71 of 2010 substantiates this viewpoint by defining capital expenditures as budgetary allocations for the acquisition of fixed assets and other assets that yield long-term benefits exceeding one accounting period. These assets may encompass equipment, infrastructure, and other fixed resources utilized by local governments to facilitate public service operations.

Sabrina et al. (2024) assert that substantial capital expenditures signify the advancement of infrastructure and facilities, which directly influences the quality of public services. Increased capital spending correlates with enhanced potential for the improvement of public service quality.

However, over the past five years, capital spending in the Sumatra region has faced challenges, as its realization has not always aligned with the need for improved services. The available capital expenditure portion has fluctuated and has not been optimal in promoting equitable public service quality across the region.



	2019	2020	2021	2022	2023
Aceh	20,03%	13,26%	16,07%	18,19%	14,76%
Bengkulu	23,79%	15,46%	11,26%	13,78%	18,79%
Jambi	17,96%	14,51%	10,25%	19,00%	20,09%
Kepulauan Bangka Belitung	19,49%	19,81%	20,26%	18,19%	18,44%
Kepulauan Riau	17,33%	15,22%	9,13%	14,37%	14,47%
Lampung	14,37%	10,80%	11,97%	15,11%	17,13%
Sumatera Barat	16,21%	11,50%	10,30%	14,93%	15,61%
Sumatera Utara	12,29%	13,70%	8,63%	14,20%	19,13%
Sumatera Selatan	25,01%	24,12%	18,26%	15,90%	12,84%
Riau	13,36%	11,25%	11,40%	16,57%	19,81%

Figure 1. Graph of Capital Expenditure Portions of Provinces in Sumatra
Source: Processed data, 2025

Based on Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, regions are required to allocate a minimum of 40% of total regional budget (APBD) expenditures for capital expenditure. However, in the 2019–2023 period, capital expenditure allocations in provinces on Sumatra Island remained below this threshold and fluctuated. In 2019, only Aceh, Bengkulu, and South Sumatra allocated 20–25% of capital expenditure, while the other seven provinces allocated 12–19%. In 2020–2023, capital expenditure allocations actually decreased further, ranging from 8% to 20%. This indicates suboptimal compliance with the mandate of the law and impacts regional financial sustainability.

Bolívar et al. (2018) define financial sustainability as the government's ability to provide current services without compromising its ability to provide future services. M. Maharani (2023) emphasized that financial sustainability is crucial for supporting sustainable

development, creating jobs, increasing public income, and strengthening the independence of local governments. If financial sustainability is compromised, it can reduce the quality of public services and hinder the achievement of public welfare.

Factors influencing financial sustainability include:

Service Solvency

According to Minister of Home Affairs Regulation No. 19 of 2020, service solvency describes a region's ability to maintain the quality of public services. According to Hestaningrum & Ritonga (2016), the higher the service solvency value, the better the quality of public services provided. Syahriyal et al. (2024) found that service solvency has a positive and significant effect on financial sustainability. However, this study was previously only conducted in Aceh, so it needs to be expanded to include Sumatra.

Financial Independence

Wardhani & Payamta (2020) state that financial independence is the ratio of regional revenue (PAD) to total regional revenue. Miftahurrohman & Prasetya (2024) add that the level of independence reflects community contributions through taxes and levies. Andani (2022) and Putri & Rahayu (2019) emphasized that high levels of financial independence enable local governments to independently finance activities and capital expenditures.

Research by Khairunisa et al. (2024) and Ernawati & Prasetya (2024) supports the positive effect of financial independence on financial sustainability. However, Syahriyal et al. (2024) found a different finding: independence had no significant effect, as high local revenue (PAD) was not necessarily allocated to expenditures that support sustainability. This indicates an inconsistency that requires further research.

This study aims to evaluate whether regional financial management has been effective in supporting financial sustainability and public services. This study expands on the study by Syahriyal et al. (2024), which previously focused only on Aceh, by expanding the scope to all provincial governments on the island of Sumatra, using LKPD data from 2019–2023. Therefore, the author raised the topic "The Effect of Service Solvency and Financial Independence on Financial Sustainability in Provincial Governments on the Island of Sumatra" to provide insight for better fiscal policymaking.

Based on the above background, the objectives of this study are as follows: (1) To determine the effect of Service Solvency on Financial Sustainability. (2) To determine the effect of Financial Independence on Financial Sustainability. (3) To determine the effect of Service Solvency and Financial Independence on Financial Sustainability.

Research Hypothesis

H1: Service Solvency has a positive effect on Financial Sustainability.
H2: Financial Independence has a positive effect on Financial Sustainability.
H3: Budget Solvency, Service Solvency, and Financial Independence have an effect on Financial Sustainability.

METHODS

This research uses a quantitative method based on the philosophy of positivism, as proposed by Sugiyono (2023:4), which examines a specific population or sample using research instruments and statistical data analysis. This research also applies a causal approach to examine relationships between variables. According to Sahir (2021), quantitative methods produce numerical data that are statistically processed to explain phenomena and test hypotheses. The research was conducted in ten provincial governments on the island of Sumatra using data from the 2019–2023 Regional Government Financial Reports (LKPD) for the period March to June 2025.

The research variables consist of dependent and independent variables. According to Sugiyono (2023:68), a variable is a characteristic or value of an object that is determined to be studied and concluded. The dependent variable in this study is Financial Sustainability (Y), which, according to Sugiyono (2023:69), is the result of changes in the independent variables. Meanwhile, the independent variables are Service Solvency (X1) and Financial Independence (X2), which, according to Sugiyono (2023:69), are the causes of changes in the dependent variable.

Operationalization of variables is explained by Suhardi (2023) as a concrete form of how variables are empirically measured so that concepts can be researched. Local governments are required to allocate capital expenditures through the Regional Revenue and Expenditure Budget (APBD) to improve the quality of public services. Ang et al. (2016) contend that capital expenditure funds are crucial for enhancing fixed assets that support governmental services. Government Regulation Number 71 of 2010 supports this perspective by delineating capital expenditures as budgetary allocations for the procurement of fixed assets and other assets that provide long-term benefits surpassing one accounting period. These assets may include equipment, infrastructure, and other fixed resources employed by local governments to support public service operations.

Sabrina et al. (2024) contend that significant capital expenditures indicate the progression of infrastructure and facilities, which directly affects the quality of public services. Augmented capital expenditure is associated with an elevated capacity for the enhancement of public service quality. Hypothesis testing was conducted using partial tests (t-tests) and simultaneous tests (F-tests). The t-test was used to assess the influence of each independent variable on the dependent variable individually (Ghozali & Ratmono, 2017:57), while the F-test was used to assess the influence of all independent variables simultaneously on the dependent variable (Ghozali & Ratmono, 2017:56). With a systematic structure and procedures, this method aims to produce scientifically valid and statistically tested findings.

RESULTS AND DISCUSSION

Research Results

Descriptive Statistics

Table 1. Descriptive Statistics Test Results

Date: 07/23/25
Time: 19:04
Sample: 2019 2023

	X1	X2	Y
Mean	221532.9	0.390300	0.153480
Median	195918.8	0.388000	0.153500
Maximum	588733.5	0.589000	0.253000
Minimum	76406.25	0.171000	0.081000
Std. Dev.	109185.2	0.099286	0.039343
Skewness	1.238404	-0.173221	0.267003
Kurtosis	4.817559	2.951399	2.570041
Jarque-Bera	19.66270	0.254967	0.979224
Probability	0.000054	0.880308	0.612864
Sum	11076647	19.51500	7.674000
Sum Sq. Dev.	5.84E+11	0.483031	0.075846
Observations	**50**	**50**	**50**

Source: Output Eviews, 2025

Based on the results of the descriptive statistical test in Table 1, the Service Solvency variable (X1) shows that the highest (maximum) value was achieved by the Aceh Provincial Government in the 2019 fiscal year, at 588,733.5, while the lowest (minimum) value was achieved by the North Sumatra Provincial Government in 2021, at 76,406.25. Overall, the average service solvency score for provincial governments on the island of Sumatra was 221,532.9, reflecting the region's ability to provide public services to the community sustainably. The median score of 195,918.8 and standard deviation of 109,185.2 indicate significant variation between regions in terms of service solvency. The skewness score of 1.238404 indicates that the data distribution is positively skewed, indicating that some regions have significantly higher service solvency scores than others. Meanwhile, the kurtosis value of 4.817559 indicates that the data distribution is leptokurtic, or has a sharper peak than a normal distribution.

The Financial Independence variable (X2) shows that the highest maximum value was achieved by Riau Province in 2023, at 58.9% (0.589000), and the lowest value was achieved by the provincial government with the lowest financial independence, Aceh Province, in 2019, at 17.1% (0.171000). Overall, the average financial independence of provincial governments on the island of Sumatra was 0.390300, or equal to 39.03%. This reflects that provincial governments on the island of Sumatra are not yet independent and still rely on funding from the central government, with a median value of 0.388000 and a standard deviation of 0.099286. A skewness value of -0.173221 indicates that the data distribution is skewed to the left (slightly skewed), while a kurtosis value of 2.951399 indicates that the data distribution closely resembles a normal distribution.

The Financial Sustainability (Y) variable shows that the highest (maximum) value was achieved by the Bengkulu Provincial Government in the 2019 fiscal year, at 0.253000 or 25.3%, while the lowest (minimum) value was achieved by the North Sumatra Provincial Government in 2021, at 0.081000 or 8.1%. Overall, the average financial sustainability score for provincial governments on the island of Sumatra was 0.153480 or 15.35%, indicating that the level of regional financial sustainability is still relatively low. The median value of 0.153500 and standard deviation of 0.039343 indicate that the level of financial independence is relatively stable across regions. A skewness value of 0.267003 indicates that the data distribution is slightly skewed to the right, indicating that some provinces have significantly higher financial sustainability scores. Meanwhile, a kurtosis value of 2.570041 indicates that the distribution of financial sustainability among provincial governments on Sumatra Island has a slightly flatter peak than a normal distribution.

Panel Data Regression Model

Table 2. Chow Test Results

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.541813	(9,38)	0.0001
Cross-section Chi-square	41.917207	9	0.0000

Source: Output Eviews, 2025

Based on Table 2, it can be seen that a probability value of 0.0000 < 0.05 means that Ho is rejected and Ha is accepted. Therefore, the selected model is the Fixed Effect Model

(FEM). The Hausman test was then performed to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) was best.

Hausman Test

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.191262	2	0.0001

Source: Output Eviews, 2025

Based on Table 3, it can be seen that the probability value of 0.0001 is less than the 0.05 significance level (p-value <5%). This indicates that H_0 is rejected and Ha is accepted, thus the selected model is the Fixed Effect Model (FEM). Furthermore, based on the results of the Chow and Hausman tests, the most appropriate model remains the Fixed Effect Model (FEM). Therefore, the Lagrange Multiplier (LM) test is not necessary, as this test is only used to select between the Common Effect Model (CEM) and the Random Effect Model (REM). Therefore, it can be concluded that of the three types of models tested (CEM, REM, and FEM), the most appropriate model for use in panel data regression analysis in this study is the Fixed Effect Model (FEM).

Classical Assumption Test

Normality Test

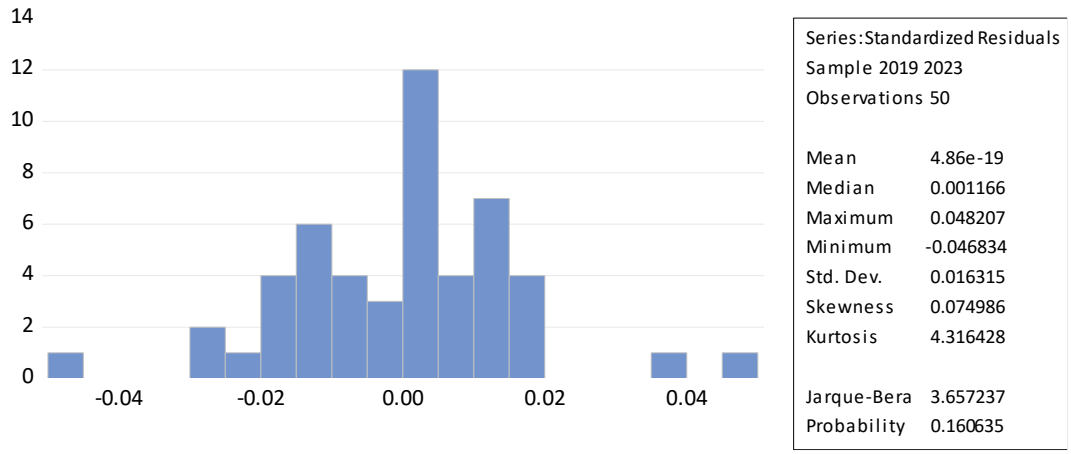


Figure 2. Normality Test Results
Source: Output Eviews, 2025

Based on the results of the normality test, the probability value was 0.160635. This value is greater than the 0.05 significance level, so it can be concluded that the residual data is normally distributed. In other words, the data in the regression model meets the assumption of normality.

Multicollinearity Test

Table 4. Multicollinearity Test Results

Variance Inflation Factors
Date: 07/19/25 Time: 11:26
Sample: 1 50
Included observations: 50

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000622	48.44771	NA
X1	1.74E-15	8.259472	1.588142
X2	0.002110	26.63242	1.588142

Source: Output Eviews, 2025

Based on the multicollinearity test results above, it can be seen that the service solvency variable (X1) has a VIF value of 1.588142 ≤ 10, and the financial independence variable (X2) has a VIF value of 1.588142 ≤ 10. This indicates that there is no multicollinearity between the budget solvency, service solvency, and financial independence variables.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	1.373342	Prob. F(2,47)	0.2632
Obs*R-squared	2.760670	Prob. Chi-Square(2)	0.2515
Scaled explained SS	2.385264	Prob. Chi-Square(2)	0.3034

Source: Output Eviews, 2025

Based on the results of the heteroscedasticity test performed in Table 5, the probability value is 0.2515. Because this value is greater than the 0.05 significance level, it can be concluded that there is no heteroscedasticity in the model. Thus, the regression model passes the heteroscedasticity test, meaning the variance of the error term is constant (homoscedastic). This indicates that the regression model meets one of the classical assumptions, so the estimation results are valid and can be used for further testing.

Autocorrelation Test

Table 6. Autocorrelation Test Results

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.016151	R-squared	0.828034
Mean dependent var	0.153480	Adjusted R-squared	0.778254
S.D. dependent var	0.039343	S.E. of regression	0.018527
Akaike info criterion	-4.933646	Sum squared resid	0.013043
Schwarz criterion	-4.474760	Log likelihood	135.3411
Hannan-Quinn criter.	-4.758900	F-statistic	16.63394
Durbin-Watson stat	1.639663	Prob(F-statistic)	0.000000

Based on the autocorrelation test results above, the Durbin-Watson value is 1.639663. This was then compared using a significance level of 0.05, a sample size of 50 observations (n), and two independent variables (k=2). The dU value < dW < 4-dU (1.6283 < 1.639663 < 2.3717), thus, it can be concluded that there is no autocorrelation.

Multiple Regression Analysis

Table 7. Results of Multiple Regression Analysis

Dependent Variable: Y
Method: Panel Least Squares
Date: 07/19/25 Time: 11:27
Sample: 2019 2023
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008802	0.020493	-0.429489	0.6700
X1	5.30E-07	4.68E-08	11.32039	0.0000
X2	0.115082	0.049372	2.330924	0.0252

Source: Output Eviews, 2025

The equation obtained from the multiple regression analysis is as follows:

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

$$Y = -0.008802 + 0.000000530\ X_1 + 0.115082\ X_2 + \varepsilon$$

Based on the equation above, it can be explained as follows:

1. The constant value of -0.008802 means that without the independent variables Service Solvency (X1) and Financial Independence (X2), the dependent variable Financial Sustainability (Y) would decrease by 0.88%.
2. The beta coefficient value for the Service Solvency (X1) variable is 0.000000530, meaning that for every 1% decrease in the independent variable, Service Solvency (X1), the dependent variable, Financial Sustainability (Y), increases by 0.000053%. If the Service Solvency (X1) variable increases by 1%, the Financial Sustainability (Y) variable decreases by 0.000053%.
3. The beta coefficient value for the Financial Independence (X2) variable is 0.115082, meaning that for every 1% increase in the independent variable, Financial Independence (X2), the dependent variable, Financial Sustainability (Y), increases by 11.51%. If the Financial Independence (X2) variable decreases by 1%, the Financial Sustainability (Y) variable decreases by 11.51%.

Coefficient of Determination

Table 8. Results of the Coefficient of Determination Test

Effects Specification

Cross-section fixed (dummy variables)			
Root MSE	0.016151	R-squared	0.828034
Mean dependent var	0.153480	Adjusted R-squared	0.778254
S.D. dependent var	0.039343	S.E. of regression	0.018527
Akaike info criterion	-4.933646	Sum squared resid	0.013043

Schwarz criterion	-4.474760	Log likelihood	135.3411
Hannan-Quinn criter.	-4.758900	F-statistic	16.63394
Durbin-Watson stat	1.639663	Prob(F-statistic)	0.000000

Source: Output Eviews, 2025

Table 8 shows that the Adjusted R-square value is 0.778254, or 77.82%. This means that the independent variables, Service Solvency (X1) and Financial Independence (X2), have a significant 77.82% effect on the dependent variable, Financial Sustainability (Y). The remaining 22.18% is due to other factors not examined in the study.

Hypothesis Testing

Partial Test (t-Test)

Table 9. Partial Test Results (t-Test)

Dependent Variable: Y
Method: Panel Least Squares
Date: 07/19/25 Time: 11:27
Sample: 2019 2023
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008802	0.020493	-0.429489	0.6700
X1	5.30E-07	4.68E-08	11.32039	0.0000
X2	0.115082	0.049372	2.330924	0.0252

Source: Output Eviews, 2025

Table 9 shows the results of the partial significance test as follows.

1. The calculated t-value for the independent variable, Service Solvency (X1), is 11.32039, > the t-table value of 2.011741, with a significance level of 0.0000 < α of 0.05. This means that the independent variable, Service Solvency (X1), has a partial and significant positive effect on the dependent variable, Financial Sustainability (Y).
2. The calculated t-value for the independent variable, Financial Independence (X2), is 2.330924, > the t-table value of 2.011741, with a significance level of 0.0000. 0.0252 < α 0.05, which means that the independent variable, Financial Independence (X2), has a partial and significant positive effect on the dependent variable, Financial Sustainability (Y).

Simultaneous Test (F Test)

Table 10. Simultaneous Test Results (F Test)

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.016151	R-squared	0.828034
Mean dependent var	0.153480	Adjusted R-squared	0.778254
S.D. dependent var	0.039343	S.E. of regression	0.018527
Akaike info criterion	-4.933646	Sum squared resid	0.013043
Schwarz criterion	-4.474760	Log likelihood	135.3411
Hannan-Quinn criter.	-4.758900	F-statistic	16.63394
Durbin-Watson stat	1.639663	Prob(F-statistic)	0.000000

Source: Output Eviews, 2025

Table 10 shows that the calculated F-value of 16.63394 is greater than the F-table value of 3.195056, with a significance level of 0.000000 and a significance level of <α of 0.05. This indicates that the independent variables Service Solvency (X1) and Financial Independence (X2) have a significant effect on the dependent variable Financial Sustainability (Y). Statistically, Ho is rejected and Ha is accepted because it is greater than 0.05. This means that the independent variables Service Solvency (X1) and Financial Independence (X2) simultaneously have a significant effect on the dependent variable Financial Sustainability (Y).

Discussion

The Effect of Service Solvency on Financial Sustainability

The statistical test findings indicate that the computed t-value of 11.32039 exceeds the t-table value of 2.011741, and the significance level of 0.0000 is below 0.05. This signifies that the Service Solvency variable exerts a positive and substantial influence on Financial Sustainability.

A robust service solvency ratio indicates the capacity of provincial governments on the island of Sumatra to enhance public service quality via capital expenditures, especially in infrastructure and public facility development. This discovery corresponds with the studies conducted by Syahriyal et al. (2024) and Cahyani et al. (2024), which underscore the significance of capital expenditure allocation in enhancing service quality and public engagement.

This research corroborates goal-setting theory, highlighting the significance of establishing specific budget objectives to enhance public services and ensure budgetary sustainability. The enhancement of service solvency indicates the efficacy of local governments in administering development expenditures, hence influencing regional financial sustainability.

The Effect of Financial Independence on Financial Sustainability

The statistical test produced a t-value of 2.330924, exceeding the t-table value of 2.011741, with a significance level of 0.0252, which is below 0.05. Consequently, the Financial Independence variable exerts a positive and considerable influence on Financial Sustainability. These findings corroborate the studies conducted by Saputra et al. (2025) and Aryasi et al. (2023), indicating that an increase in a region's financial independence correlates with an expanded fiscal capacity to set development priorities independently of central transfer funds. In contrast, the research of Syahriyal et al. (2024) demonstrates that areas with elevated Regional Original Revenue (PAD) may fail to attain financial sustainability if expenditure allocations are mismanaged.

This study establishes that financial independence enhances the efficiency and effectiveness of regional budget management and positively influences the quality of public services. These results further reinforce goal-setting theory, as effective PAD management illustrates distinct financial objectives that promote regional fiscal sustainability.

The Influence of Service Solvency and Financial Independence on Financial Sustainability

The simultaneous test results indicate that the computed F-value of 16.63394 exceeds the F-table value of 3.195056, and the significance level of 0.000000 is below 0.05. This signifies that the factors of Service Solvency and Financial Independence collectively exert a substantial influence on Financial Sustainability.

The coefficient of determination analysis reveals a R^2 value of 0.778254, signifying that 77.82% of the variance in Financial Sustainability is attributable to these two independent variables. The remainder is affected by external variables not included in the model.

Both elements concurrently exert a substantial impact on the capacity of local governments to uphold financial sustainability. Augmenting regional revenues fosters fiscal autonomy, whilst efficient distribution of capital expenditures enhances public services. Both are critical elements in the pursuit of regional budgetary stability and sustainability.

CONCLUSION

Based on the author's research, which examined the factors influencing financial sustainability in provincial governments on the island of Sumatra for the 2019-2023 fiscal years, it can be concluded that:

1. The Service Solvency variable (X1) has a positive and significant effect on financial sustainability in provincial governments on the island of Sumatra for the 2019-2023 fiscal years. Therefore, the first hypothesis of this study is accepted. This proves that a high service solvency ratio enables provincial governments on the island of Sumatra to allocate capital expenditures to improve the quality of public services sustainably, thereby promoting financial sustainability.
2. The Financial Independence variable (X2) has a positive and significant effect on financial sustainability in provincial governments on the island of Sumatra for the 2019-2023 fiscal years. Therefore, the second hypothesis of this study is accepted. This means that a high financial independence ratio demonstrates the provincial governments on the island of Sumatra's ability to manage their resources, in the form of local revenue, to provide public services and achieve financial sustainability.
3. The variables Service Solvency (X1) and Financial Independence (X2) simultaneously and significantly influence Financial Sustainability (Y). Therefore, the third hypothesis in this study is accepted. Therefore, it can enable the realization of Financial Sustainability in provincial governments on the island of Sumatra in the 2019-2023 budget year.

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