



# The influence of regional original revenues, balancing funds and capital expenditures on the financial performance of regency/city regional governments of east java province

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Article Info	ABSTRACT
<p><b>Article history:</b></p> <p>Received Dec 02, 2022 Revised Dec 15, 2022 Accepted Dec 29, 2022</p> <hr/> <p><b>Keywords:</b></p> <p>Balancing Funds; Capital Expenditures; City Governments; Regional Original Revenues.</p>	<p>This study aims to determine and obtain empirical evidence of the effect of Regional Original Revenues, Balancing Fund and Capital Expenditure partially and simultaneously on the Financial Performance of Regency/City Governments in East Java Province. The type of research used is quantitative with a causal associative approach. The research data used is secondary data. The sampling technique used in this research is saturated sampling. The population in this study is the East Java Province Regional Budget Realization Report of 38 districts/cities for 3 fiscal years 2018-2020. The sample in this study was all 38 districts/cities of East Java Province consisting of 29 districts and 9 cities with a research period of 3 years. The analytical method used is multiple linear regression. The results of this study indicate that partially the Regional Original Revenues has a positive effect on the financial performance of the regional government, the Balancing Fund has a negative effect on the financial performance of the regional government, and Capital Expenditure have a negative effect on the financial performance of the regional government. Simultaneous test results show that Regional Original Revenues, Balancing Fund and Capital Expenditure together have a significant effect on the Financial Performance of the Regency/City Government of East Java Province.</p> <p style="text-align: right;"><i>This is an open access article under the CC BY-NC license.</i></p>



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## 1. INTRODUCTION

Regional autonomy in Indonesia is implemented through Law no. 22 of 1999 concerning Regional Government (revised into Law No. 32 of 2004) which is a manifestation of the enactment of decentralization. With decentralization, local governments have the authority to manage their own administration.

According to Rosemarry et al. (2016) the implementation of the regional autonomy policy resulted from the inability of the regional government to control development in the region as a whole, because of this the regional government received a delegation of power from the central government to independently control and manage the interests of its region autonomously. This is what causes how important it is to measure local government financial performance (Antari & Sedana, 2018).

Based on the findings in the 2020 East Java Province regional fiscal review report, East Java regional revenues in 2020 experienced a negative growth of 5,23 percent compared to 2019. During the

2018-2020 period, government transfer revenues still dominated regional revenues with a bigger percentage. This shows that the regional government of East Java is still very dependent on transfer revenue from the central government.

Regional Original Revenue which is defined as regional income originating from regional taxes, regional levies, separated regional wealth management results, and other legitimate regional original revenues as referred to in Law no. 33 of 2004, aims to provide flexibility to the regions in seeking funding for the implementation of regional autonomy as a manifestation of the principle of decentralization.

Balancing funds are a component of state spending related to funding in the implementation of decentralization. Balancing funds are not only used to help finance development in the regions, they also have the aim of reducing the budget gap between the central government and the regions. Acceptance of transfers of funds from the central government is getting bigger to meet regional needs, indicating a stronger dependence of local governments on the central government. As a result, regional financial performance has decreased (Andirfa et al., 2016).

Capital expenditures are costs incurred from the budget in acquiring fixed assets and other assets that provide benefits for more than one accounting period. Capital expenditure is used in terms of service to the public. Good expenditure control can create good value for money, so that the evaluation results on local government financial performance will also be better (Nauw & Riharjo, 2021).

Financial performance is one of the standards used to ensure that a region can implement financial implementation rules correctly in order to maintain the desired service, where conditions that can be met from a higher assessment make external parties decide to invest in the region. Financial performance measurement standards are one of the performance measurement standards that can be used to describe local government performance (Sari et. al, 2016).

Based on the background described above, the formulation of the problem in this study is : (1) Which of the Regional Own Revenues, Balancing Funds and Capital Expenditure has a partial significant effect on the Financial Performance of the District/City Government of East Java Province? (2) Do Regional Original Revenues, Balancing Funds and Capital Expenditure simultaneously have a significant effect on the Financial Performance of Regency/City Regional Governments of East Java Province?

As for the research objectives to be achieved, namely to find out and obtain empirical evidence regarding the influence of Local Own Revenue, Balancing Funds and Capital Expenditures partially and simultaneously on the Financial Performance of District/City Governments in East Java Province.

The theory used in this study uses Agency Theory. According to Halim (2014), agency theory is a contractual relationship between two or more parties, one of whom is called the principal and the other is called the agent. Local government is empowered by the community to manage public funds and make decisions, such as developing local infrastructure. Local governments need to try to maximize regional revenues in order to improve financial performance so that they can provide facilities or services to the people in their area (Anisa, 2020).

The central government has the responsibility to supervise, evaluate, and provide input on tasks that have been completed by local governments (Verawaty et. al, 2020). Regional governments are required to submit performance reports for each budget period as evidence of accountability for regional financial management (Pina et al., 2010)(Ofoegbu, 2014) (Marcuccio & Steccolini, 2009).

Regional financial performance is a summary of the achievement of the implementation of local government work activities in achieving regional goals, vision and mission as measured by the results of financial reports prepared by local governments (Sari et. al, 2016).

Regional Original Revenues based on Law no. 33 of 2004 is the result of obtaining regional revenue collection based on regional regulations in accordance with statutory regulations. Regional original revenues is a source of funding that is intended for various regional expenditure needs that are routine. PAD is divided according to the type of income, namely: 1) regional taxes, 2) regional levies, 3) results of separated wealth processing, 4) other legal original regional revenue.

Balancing funds according to Law no. 33 of 2004 is a fund originating from APBN revenues allocated to regions to fund regional needs in the context of implementing decentralization. Balancing funds consist of: Revenue Sharing Fund, General Allocation Fund and Special Allocation Fund.

Capital expenditure is one of the regional expenditure groups that is used for the purchase and procurement of tangible goods and has benefits for more than one fiscal year, intended for infrastructure development and the provision of public facilities (Halim, 2014). According to Government Accounting Standards in Government Regulation No. 71 of 2010, the categories of capital expenditure are: Land Capital Expenditure, Equipment and Machinery Capital Expenditure, Building and Construction Capital Expenditure, Road Capital Expenditure, Irrigation and Networks, and Other Physical Capital Expenditure.

## 2. RESEARCH METHOD

Quantitative research is used in this study with a causal associative approach, namely the formulation of research problems that ask about the relationship between two or more variables (Apuke, 2017)(Flick, 2016) (Sugiyono, 2017:36).

The independent variables used in this study are: Regional Own Revenue, Balancing Funds and Capital Expenditures (Guo & Jiang, 2013). The dependent variable used in this study is Local Government Financial Performance. The proxy used to measure the dependent variable in this study uses the regional financial independence ratio with the following formula:

$$\frac{\text{Regional Original Revenue}}{\text{Center Transfer} + \text{Province} + \text{loan}} \times 100\% \dots\dots\dots(1)$$

The population in this study is the Report on the Realization of the Regional Revenue and Expenditure Budget (APBD) for Regencies/Cities in East Java Province of 38 Regencies/Cities for 3 fiscal years (2018-2020). The sample in this study, namely all 38 districts/cities in East Java Province consisting of 29 regencies and 9 cities. The research period is 2018-2020, so the number of sample members is 114.

Data collection techniques carried out in research are documentation and literature study methods. The data source used is in the form of secondary data, namely the Realization Report of the 2018-2020 Regional Revenue and Expenditure Budget (APBD) for all Regencies/Cities of East Java Province via the [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id). Data analysis in this study used the classical assumption test, multiple linear regression analysis, coefficient of determination, and hypothesis testing

## 3. RESULTS AND DISCUSSION

### Classic assumption test.

#### Normality test.

Based on the results of the normal probability plot graph in Figure 1, it is explained that the distribution of the data in this study is spread around a straight line (not scattered far from the straight diagonal line) in other words, the research data is normally distributed.

#### Multicollinearity test.

Based on table 1. the results of data processing obtained the Variance Inflation Factor (VIF) value for the PAD variable 2.780 <10, the Tolerance value 0.360 > 0.1, the VIF value for the DP variable 1.407 <10, the Tolerance value 0.711 > 0.1, the VIF value for the BM variable 3.393 < 10 Tolerance value 0.295 > 0.1. So it can be concluded that the regression model does not have a multicollinearity problem.

#### Heteroscedasticity test.

Based on table 2 it shows that the results of the glejser test on the independent variable pad (x<sub>1</sub>) with a sig. 0.057 > 0.05, the dp variable (x<sub>2</sub>) with a sig. 0.714 > 0.05 and the bm variable (x<sub>3</sub>) has a sig. 0.593 > 0.05, this indicates that there are no symptoms of heteroscedasticity.

**Autocorrelation test.**

Based on table 3, it is known that the Durbin-Watson value obtained is 1.769. The number of research samples ( $n$ ) is 114, the number of independent variables is 3 ( $k = 3$ ). So the obtained value ( $dL$ ) of 1.659  $dU$  is 1.730. The Durbin-Watson value is  $1.769 > dU$ ,  $1.769 < 4-dU$ , namely  $1.769 < (4 - 1.730)$ , it can be concluded that the regression model does not have autocorrelation.

**Multiple linear regression analysis.**

Based on table 1.4, the multiple linear regression equation model is obtained as follows :

$$KKPD = 25,273 + 0,052 PAD - 0,012 DP - 0,004 BM + \varepsilon$$

- The PAD regression coefficient is 0,052 indicating that the Regional Original Income variable has a positive influence on Regional Government Financial Performance. The increase in PAD by one unit will further increase the Regional Government Financial Performance by 0,052.
- The DP regression coefficient is -0,012 indicating the Balancing Fund variable has a negative influence on Regional Government Financial Performance. The more one unit of Balancing Fund increases, the lower the Regional Government Financial Performance is by 0,012.
- The BM regression coefficient is -0,004 indicating that the Capital Expenditure variable has a negative effect on Regional Government Financial Performance. The more capital expenditure increases by one unit, the lower the regional government's financial performance is 0,004.

**Hypothesis test.****Coefficient of determination ( $R^2$ ).**

Based on the data in table 5, the value of Adjusted R Square = 0.986 is obtained, so it can be said that the change in the dependent variable ( $Y$ ) of 98.6% is caused by the PAD variable ( $X_1$ ), Balancing Funds ( $X_2$ ), and Capital Expenditure ( $X_3$ ) while 1.4% is explained by other factors outside of these variables.

**Partial significance test (t-Test).**

Based on table 6 it can be explained partially the effect of the independent variables on the dependent variable as follows:

- The PAD variable ( $X_1$ ) shows a calculated t value of 58,313 and a sig. 0,000 < 0,05, meaning that PAD partially has a positive effect on local government financial performance.
- The Balancing Fund variable ( $X_2$ ) shows a calculated t value of -13,223 and a sig. 0,000 < 0,05, meaning that the Balancing Fund partially has a negative effect on Regional Government Financial Performance.
- The capital expenditure variable ( $X_3$ ) shows a t-value of -2,398 and a sig. 0,018 < 0,05, meaning that capital expenditure partially has a negative effect on regional government financial performance.

**Simultaneous significance test (F-Test)**

Based on the F-Test in table 7 it can be seen that the results of the F-count test are 2697,945 with a sig value. 0,000 < 0,05. So it can be concluded that there is a positive and significant influence between Regional Original Revenue, Balancing Funds and Capital Expenditure simultaneously or together which can be interpreted that it is fit or feasible as a research model.

**Discussion.**

The test results prove that Regional Original Revenue (PAD) has a positive and significant effect on Regional Government Financial Performance. This illustrates that high PAD is followed by good Regional Government Financial Performance. This is in line with Sari & Wati's research (2021) which says that PAD has a significant positive effect on local government financial performance. However, in contrast to the results of research (Andirfa et al., 2016) which states that PAD has no effect on local government financial performance.

The test results prove that the Balancing Fund has a negative and significant effect on Regional Government Financial Performance. The negative effect of balancing funds on local government financial performance indicates that whenever there is a decrease in the balancing fund variable, financial performance will increase. This research is in line with the results of Prastiwi & Aji's research

(2020) that balancing funds have a significant negative effect on local government financial performance. However, this is not in line with the results of research by Nauw & Riharjo (2021), which states that balancing funds do not affect local government financial performance.

The results of the tests conducted prove that Capital Expenditure has a negative and significant effect on Regional Government Financial Performance. The negative effect of capital expenditure on the financial performance of local governments indicates that an increase in capital expenditure with the construction of infrastructure and the purchase of other fixed assets can indirectly improve the financial performance of local governments. The results of this study are consistent with research by Antari & Sedana (2018) that capital expenditure has a significant negative effect on local government financial performance. In contrast to the results of research conducted by Prastiwi & Aji (2020), which states that capital expenditure has no significant effect on financial performance.

#### 4. CONCLUSION

Based on the analysis that has been done, the conclusions in this study are: the PAD variable has a positive and significant influence on the Financial Performance of the District/City Government of East Java Province, Balancing Funds have a negative and significant influence on the Financial Performance of the Regional Government of the Regency/City of East Java Province, Capital Expenditure has a negative and significant effect on the Financial Performance of the Regional Government of the Regency/City of East Java Province, and simultaneously the variables PAD, Balancing Funds and Capital Expenditure Capital have a positive and significant influence on the Financial Performance of the Regional Government of the Regency/City of East Java Province.

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Attachment

Normality Test

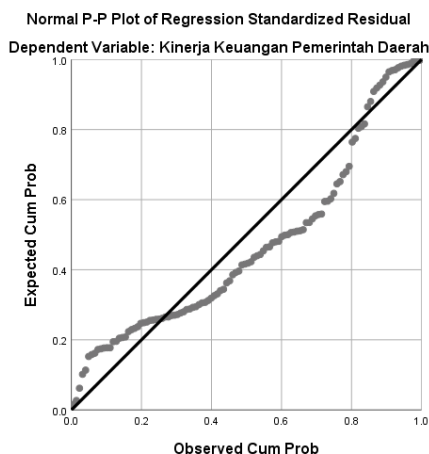


Figure 1. Graph of Normal Probability Plot

Table 1. Multicollinearity Test Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	25.273	1.148		22.008	.000		
PAD	.052	.001	1.073	58.313	.000	.360	2.780
DP	-.012	.001	-.173	-13.223	.000	.711	1.407
BM	-.004	.002	-.049	-2.398	.018	.295	3.393

a. Dependent Variable: Local Government Financial Performance

Table 2. Heteroscedasticity Test Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.282	.737		4.451	.000
PAD	.001	.001	.298	1.922	.057
DP	.000	.001	-.041	-.368	.714
BM	-.001	.001	-.092	-.536	.593

a. Dependent Variable: ABS\_RES

Table 3. Autocorrelation Test Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.993 <sup>a</sup>	.987	.986	4.41777	1.769

a. Predictors: (Constant), BM, DP, PAD

b. Dependent Variable: Local Government Financial Performance

Table 4. Multiple Linear Regression Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.273	1.148		22.008	.000
	PAD	.052	.001	1.073	58.313	.000
	DP	-.012	.001	-.173	-13.223	.000
	BM	-.004	.002	-.049	-2.398	.018

a. Dependent Variable: Local Government Financial Performance

Table 5. The Coefficient of Determination (R<sup>2</sup>)

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993 <sup>a</sup>	.987	.986	4.41777

a. Predictors: (Constant), BM, DP, PAD

b. Dependent Variable: Local Government Financial Performance

Table 6. Partial Significance Test (t Test) Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.273	1.148		22.008	.000
	PAD	.052	.001	1.073	58.313	.000
	DP	-.012	.001	-.173	-13.223	.000
	BM	-.004	.002	-.049	-2.398	.018

a. Dependent Variable: Local Government Financial Performance

Table 7. Simultaneous Significant Test (F Test) ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	157964.616	3	52654.872	2697.945	.000 <sup>b</sup>
	Residual	2146.833	110	19.517		
	Total	160111.449	113			

a. Dependent Variable: Local Government Financial Performance

b. Predictors: (Constant), BM, DP, PAD