THE EFFECT OF ORIGINAL REGIONAL INCOME, BALANCE FUND, CAPITAL EXPENDITURE AND ECONOMIC GROWTH ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN BALI

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ABSTRACT: This study aims to determine the effect of local revenue, balance funds, capital expenditures and economic growth on the financial performance of the Denpasar City government in the 2009-2018 period. The data analysis technique used is multiple linear regression analysis. The results of the data analysis show that local revenue has a positive and significant effect on the financial performance of local governments. This shows that the higher the local revenue obtained, the government's financial performance will also increase. Balanced funds have a negative and significant impact on the financial performance of local governments. This shows that the higher the balance fund, the lower the financial performance will be. Capital expenditure and economic growth do not have a significant effect on the financial performance of local governments. This shows that the higher or lower the capital expenditure and economic growth do not have a significant effect on the financial performance of local governments.

Keywords: Capital Expenditures, Balancing Funds, Financial Performance, Regional Original Income, Economic growth

I. INTRODUCTION

There are several factors that can affect the financial performance of local governments, namely Original Original Income (PAD), Balancing Funds, Capital Expenditures, Economic Growth, Legislative Measures, and Leverage. Regional Original Revenue (PAD) is revenue obtained by the region which is collected based on Regional Regulations in accordance with statutory regulations. Balancing Funds are funds sourced from APBN revenues allocated to regions to finance regional needs in the context of implementing decentralization (Law No. 33 Th. 2004). Capital expenditure is expenditure that can encourage real economic growth (Halim, 2017: 214).

Regional revenue growth is influenced by how much regional financial sources are able to generate income for the region. The ability to explore and utilize the potentials of the region optimally will be able to generate financial sources that come from local revenue (Sebastiana and Cahyo, 2016). According to the Law of the Republic of Indonesia Number 33 of 2004, regional revenue is regional revenue obtained based on applicable regional regulations. Sources of local revenue consist of local taxes, fees from local fees, separated regional wealth management, and other legitimate local revenue.

Sumawan and Sukartha (2016) argue that the high increase in revenue from local revenue each year also shows the high financial resources owned by regions. Antari and Sedana (2018) state in their research that PAD has a significant positive effect on the financial performance of the regency / municipal government of Bali Province in 2011-2015. Sari and Mustanda (2019) state that local revenue has a positive effect on the financial performance of local governments. This shows that the higher the local revenue generated, the higher the financial performance of local governments. Budianto and Alexander (2016) in their research entitled the influence of PAD and balancing funds on the financial performance of district / city governments in North Sulawesi Province stated that PAD has a positive effect on government financial performance.

Research conducted by Wiguna (2015) states that PAD has a significant negative effect on the financial performance of local governments. Armaja et al. (2015) stated that PAD has a negative effect on the financial performance of local governments. Mulyani and Wibowo (2017) also state that PAD has a negative effect on the financial performance of local governments. Putri and Darmayanti (2019) in their research entitled the influence of PAD and balance funds on the financial performance of local governments in the Sarbagita area of Bali Province, suggest that PAD has a significant negative effect on the financial performance of local governments in the Sarbagita area of Bali Province.

The results of research conducted by Aziz (2016) show that the higher the balance funds received by a region, the better the financial performance of the regional government. Research conducted by Simanullang
(2016) also found that balancing funds have a significant positive effect on local government financial performance. Alfarish (2015) also states that balancing funds have a positive effect on the financial performance of local governments.

In contrast, the results of research conducted by Andirfa et al. (2016) show that the higher and the balance received from the central government to local governments will show the stronger dependence of local governments in meeting regional needs, so that the financial performance of local governments will decline. Research conducted by Wahyuningsih (2016) also states that balancing funds have a significant negative effect on local government financial performance. Anggreni and Artini (2019) in a study entitled the influence of PAD, and balance and capital expenditure on the financial performance of Badung Regency, stated that the balance fund has a negative but insignificant effect on the regional financial performance of Badung Regency.

The results of research conducted by Aydin et al. (2016) who obtained results if government spending was above the threshold, it would have a positive effect on economic growth. This argument is also in line with the results of research conducted by Amuka et al. (2016) which states that government spending can lead to stability in the economy. Astiti and Mimba (2016) show that the allocation of funds for more capital expenditures can later help regions to obtain financial resources so as to generate regional income and have implications for improving the financial performance of local governments. Asnidar and Hardi (2019) in their research stated that capital expenditure has an effect on financial performance.

On the other hand, research conducted by Aldila, et al. (2017) entitled the effect of capital expenditure, local revenue, and balancing funds on the financial performance of the regional government of West Sumatra Province, obtained the result that capital expenditure has a negative effect. Antari and Sedana (2018) state that capital expenditure has a significant negative effect on the financial performance of the local government in the Regency / City of Bali Province for the period 2011-2015. Anggreni and Artini (2019) in a study entitled the influence of PAD, balancing funds and capital expenditures on the financial performance of Badung Regency, Bali Province, also suggest that capital spending has a significant negative effect on the growth of regional financial performance in a direct way. Heryanti, et al. (2019) stated that capital expenditure has no significant effect on financial performance. Prastiw and Aji (2020) also state that there is no effect of capital spending, which is assumed to be regional government cash expenditures to add fixed assets which will later be used for regional development and reflect the government's financial performance.

Economic growth is an important indicator in analyzing the implemented economic development. Growth must go hand in hand and be planned in an effort to create equal opportunities and share development results. According to Tarigan (2005), regional economic growth is an increase in people's income that occurs in an area, namely an increase in all added value that occurs in that region. Nasution and Panggabean (2017) in their research entitled analysis of the effect of economic growth and local revenue on the financial performance of district and city governments in North Sumatra province, shows that economic growth both partially and simultaneously has a positive and significant effect on the financial performance of district and city governments in North Sumatra. North Sumatra province. The results of these studies indicate that the higher the economic growth, the better the financial performance of local governments will be. The results of Rochmah's (2015) research entitled factors affecting local government financial performance (empirical study on cities and districts in Central Java province 2009-2012) state that economic growth has a positive and significant effect on local government financial performance.

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The results of Kurniawati's (2015) research with the title analysis of the effect of local revenue, balance funds, capital expenditures, gross regional domestic product, and human development index on government financial performance in new autonomous regions in Indonesia show that the results of multiple regression of original regional income, balance funds simultaneously, capital expenditure, gross regional domestic product, and human development index have a significant effect on the financial performance of the government in the new autonomous regions in Indonesia, while partially the gross regional domestic product has no effect on the financial performance of the government in the new autonomous regions in Indonesia. Majriyati (2018) in his research entitled the effect of economic growth, realization of local revenue, realization of capital expenditures, and changes in regional original revenue budgets on the financial performance of local governments in districts and cities in Aceh states that economic growth, realization of local revenue, realization of expenditure capital, and changes in the original regional revenue budget have no significant joint or partial effect on the financial performance of local governments.

What the government can do to strengthen development in all regions is to make development priorities directed at a better distribution of development (Melva, 2014: 179). The economy is considered to experience growth if all real remuneration for the use of production factors in a certain year is greater than the previous year, in other words, the economy is said to experience growth if the real income of the people in a certain year is greater than the real income of the people in the previous year (Basri, 2002).

Referring to the results of previous studies, there is an inconsistency between one study and another. In connection with the Research Gap, this research focuses on the influence of Regional Original Income (PAD), Balancing Funds, Capital Expenditures, and Economic Growth on Denpasar City Financial Performance. This research was re-conducted to clarify the findings of previous studies, therefore the researcher conducted a study entitled "The Effect of Local Own Income, Balancing Funds, Capital Expenditures and Economic Growth on Financial Performance in Denpasar City". The researcher chose Denpasar City as the research object because the financial performance of the Denpasar City local government which is projected from the degree of fiscal decentralization often experiences fluctuations. Denpasar City is also the capital city of Bali Province and one of the largest contributors to local revenue.

Based on the explanation above, the hypothesis can be stated as follows:

H1: Original Regional Income (PAD) has a positive effect on the financial performance of the local government of Denpasar City.
H2: Balancing funds have a negative effect on the financial performance of the Denpasar City government.
H3: Capital expenditure has a positive effect on the financial performance of the local government of Denpasar City.
H4: Economic growth has a positive effect on the financial performance of the Denpasar City government.

II. RESEARCH METHODS

The location of this research is the Regional Government of Denpasar City, Bali Province. The data source used in this research is secondary data published by the Bali Province Central Bureau of Statistics (BPS) and can be accessed on the website www.bali.bps.go.id. The data analysis technique in this study is multiple linear regression analysis.

The formulation of the multiple linear regression equation is formulated as follows:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Information:

- \( Y \) = Local Government Financial Performance
- \( \alpha \) = Regression Constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = Independent Variable Regression Coefficient
- \( X_1 \) = Regional Original Income (PAD)
- \( X_2 \) = Balancing Fund
X₁ = Capital Expenditure
X₂ = Economic Growth
e = standard error rate

III. RESULT AND DISCUSSION

Multiple Linear Regression Analysis
This analysis technique is used to prove the truth. There is the influence of independent variables on the dependent variable to be studied, namely local revenue, balance funds, capital expenditures and economic growth on the financial performance of the Denpasar City Government for the period 2009-2018 either partially or simultaneously. The results of multiple linear regression analysis can be seen in Table 1 below:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>1.581</td>
<td>2.710</td>
<td>.583</td>
<td>.585</td>
</tr>
<tr>
<td>Original Regional Income</td>
<td>.520</td>
<td>.062</td>
<td>1.418</td>
<td>8.379</td>
</tr>
<tr>
<td>Balancing Fund</td>
<td>-.433</td>
<td>.149</td>
<td>-.514</td>
<td>2.897</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>-.008</td>
<td>.069</td>
<td>-.024</td>
<td>-.114</td>
</tr>
<tr>
<td>Economic growth</td>
<td>-.014</td>
<td>.019</td>
<td>-.054</td>
<td>.759</td>
</tr>
</tbody>
</table>

Primary Data, 2020
Based on Table 1, multiple linear regression equation can be made as follows:

\[ Y = 1.581 + 0.520X_1 - 0.433X_2 - 0.008X_3 - 0.014X_4 \]

The Effect of Original Regional Income on Regional Government Financial Performance
Based on the results of the test statistic with t-value = 8.379 > t-table = 2.015 or a significant value 0.00 <0.05, H₀ is rejected and H₁ is accepted. So, it can be concluded that local revenue has a positive and significant effect on the financial performance of local governments.

The higher the original regional income will reduce the level of fiscal dependence on the central government. The higher the local revenue also shows the higher regional financial resources, which, if it can be used optimally, will improve the financial performance of the regional government, besides that the ability of the local government to self-finance all its regional activities will increase so that it reflects the local government has performed well.

The results of this study are also supported by research conducted by Sumawan and Sukartha (2016), Antari and Sedana (2018), Sari and Mustanda (2019), Budianto and Alexander (2016) who found that local revenue has a positive and significant effect on financial performance. regional government.

The Effect of Balancing Funds on Regional Government Financial Performance
Based on the results of the test statistic with t-value = -2.897 <t-table = -2.015 or a significant value of 0.034 <0.05, H₀ is rejected and H₂ is accepted. So, it can be concluded that the balancing fund has a negative and significant effect on the financial performance of local governments.

Balancing funds are funds sourced from the APBN allocated to regions to finance needs in the context of implementing decentralization. Apart from being intended to assist regions in funding the balance of development, the balancing fund also aims to reduce the fiscal gap and imbalance in funding sources between the central government and regional governments and between regional governments. The higher the balancing fund, the higher the level of local government dependence on the central government, this will reflect the poor performance of local governments. On the other hand, the lower the balancing fund, the lower the level of dependence of the local government on the central government, this will reflect good local government performance.

The results of this study are also supported by research conducted by Andirfa et al. (2016), Wahyuningsih (2016), Anggreni and Artini (2019) who found that balancing funds have a significant negative effect on the financial performance of local governments.

The Effect of Capital Expenditures on Regional Government Financial Performance
Based on the results of the test statistic with t-value = -0.114 <t-table = 2.015 or a significant value of 0.91 > 0.05, H₃ is rejected and H₀ is accepted. So, it can be concluded that capital spending has no significant effect on the financial performance of local governments.

The results of this study indicate that the capital expenditures made by the local government of Denpasar City for the 2009-2018 period have not been fully able to contribute to the growth of regional revenues in Denpasar City in 2009-2018. Capital spending can be said to be an investment made by local governments, even though capital spending activities at local governments do not aim to seek profit. Capital expenditure activities can add to the fixed assets owned by the region and be able to generate long-term financial resources. Based on this, it indicates that the current government capital expenditure activities will
generate financial sources several years later. Another reason that capital spending has a negative effect on the 
financial performance of local governments is that not all capital expenditure activities are able to generate 
financial sources directly for the region.

The results of this study are supported by research conducted by Aldila, et al. (2017), Antari and Sedana (2018), 
Anggreni and Artini (2019), Heryanti, et al. (2019), Prastiwi and Aji (2020) who find that capital expenditure 
has a negative effect on the financial performance of local governments.

The Effect of Economic Growth on Local Government Financial Performance

Based on the results of the test statistic with the value of \( t \)-value = -0.759 < \( t \)-table = 2.015 or a 
significant value of 0.48 > 0.05, H4 is rejected and H0 is accepted. So, it can be concluded that economic growth 
has no significant effect on the financial performance of local governments.

The results of this study indicate that any increase in the economic growth of an area is not always followed by 
an increase in the financial performance of the local government of Denpasar City. Although the economic 
growth of Denpasar City in 2017 increased to 11.07%, it fell back in 2018 to 9.09%. This change is more due to 
the fact that production factors in a region do not necessarily improve the financial performance of the local 
government in a short time, but require a long and sustainable period of time.

The results of this study are supported by research conducted by Kurniawati (2015), Majriyati (2018), and 
Heryanti, et al. (2019) who found that economic growth had no effect on the financial performance of local 
governments.

Simultaneous Test (F)

To test the significance of the independent variables, namely the local revenue, balance funds, capital 
expenditure and economic growth simultaneously on the dependent variable, namely the financial performance 
of the local government of Denpasar City. Table 4.8 shows the results of the simultaneous test (F) as follows:

<table>
<thead>
<tr>
<th>Table 2. F Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ANOVA</strong></td>
</tr>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1 Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Primary Data, 2020

Based on Table 2 it can be seen that the significance level of F 0.000 is smaller than 0.05 (0.000 < 0.05) and the 
Fcoun value of 51.318 is compared with Ftable with degrees of freedom k – 1 = 5–1 = 4 and N – k = 10– 5 = 5 
which is 5.19 because the value of Fcount> Ftable (51.318> 5.19) so that H0 is rejected, and H5 is accepted, 
which means that local revenue, balance funds, capital expenditure, and economic growth have a significant 
effect simultaneously on the financial performance of local governments .

Coefficient of Determination (Adjusted R²)

The coefficient of determination is between zero and one (0 <R²<1). A small value of R² means that the ability 
of the independent variables to explain the dependent variation is very limited. A value close to one means that 
the independent variables can provide almost all the information needed to explain the dependent variable. The 
coefficient of determination can be seen through the adjusted R² value. The results of the coefficient of 
determination test can be seen in Table 3 as follows:

<table>
<thead>
<tr>
<th>Table3. Coefficient of Determination (Adjusted R²)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model Summary</strong></td>
</tr>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

Primary Data, 2020

Based on Table 3, it can be observed that the adjusted R² value of 0.957 means 95.7 percent change (up and 
down) in Regional Government Financial Performance which is influenced by Regional Original Income, 
Balanced Funds, Capital Expenditures, Economic Growth while the remaining 4.3 percent is influenced by 
factors - other factors beyond research.

IV. CONCLUSION

This study discusses local revenue, balance funds, capital expenditures, economic growth on the 
financial performance of the local government of Denpasar City. The results of this study indicate that local 
revenue, balancing funds, capital expenditures, and economic growth simultaneously have a significant effect on 
the financial performance of the Denpasar city government, while partially local revenue and balance funds 
have a significant effect, while capital expenditure and economic growth have no significant effect. on the 
financial performance of the Denpasar City local government.

Local revenue has a positive and significant effect on the financial performance of the Denpasar City 
government. If the level of local revenue is high, the higher the level of local government financial performance.
Original regional revenue is important for local governments because the higher the local revenue, the less dependence on the central government so that the government's performance will increase. Balancing funds have a negative and significant effect on the financial performance of the Denpasar City government. The higher the balance funds received, the higher the dependence of the regional government on the central government, this can cause a decline in the financial performance of the regional government. Capital expenditure simultaneously affects the financial performance of the Denpasar City government, but partially capital expenditure does not have a significant effect. The higher or lower the capital expenditure has no effect on the financial performance of the local government of Denpasar City. Economic growth simultaneously affects the financial performance of the Denpasar City government, but partially economic growth does not have a significant effect. Similar to capital expenditure, high and low economic growth also does not affect the financial performance of the Denpasar City government.

REFERENCES


