

Regional Revenue and Balanced funds on the Financial Performance of the Regional Government (Empirical Study at Tabanan, Bali, Indonesia)

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ABSTRACT : The financial performance of regional governments is an important matter to consider in developing regional autonomy to improve the welfare of the community. The purpose of this study is to determine the effects of regional revenue and Balanced funds on the Financial Performance of the Regional Government of Tabanan Regency in 2015-2019. The data used in this research are financial reports on the realization of the Regional Budget. The analysis method used is multiple linear regression. The results show that simultaneously regional revenue and Balanced funds affect the Financial Performance of regional Government. Partially, regional revenue has a significant positive effect on the financial performance of regional governments. The balanced fund has a significant negative effect on the financial performance of the Tabanan Regency regional government in 2015-2019.

KEYWORDS: *Balanced funds, Regional Government Financial Performance, Regional Revenue*

I. INTRODUCTION

In Indonesia, the regional government is an inseparable part of implementing governance and the regions are also given the authority to regulate all interests in their autonomous regions, which is called regional autonomy. Law No. 32 of 2004 and Law no. 33 of 2004 are the main basis for implementing regional autonomy to provide opportunities for regions to maximize the potential of the regions, both in terms of natural resources, human resources, and other resources that become regional assets with the hope that the region will become more independent so that it can reduce dependency to the central government in both development financing and regional financial management (Halaskova & Halaskova, 2016). The government can see the financial capacity of its regions by measuring regional financial performance using regional government financial ratio analysis (Mahardika & Saputra, 2019). A tool for analyzing regional financial performance is to apply financial ratios to regional spending budgets (regional financial independence ratios, efficiency ratios, growth ratios and effectiveness ratios)

Quoted on Mangantar (2018), "financial performance is carried out to regulate the level of accountability of the regional government and the level of financial independence of local governments in implementing the principles of regional autonomy, it can be measured using the ratio of regional financial independence." In Law Number 32 of 2004, regional financial independence means that the government can carry out its own financing and financial accountability, carry it out on its own within the framework of decentralization principles. To realize a regional government financial independence, the local government always strives to continue to increase regional revenue in order to create the welfare of the surrounding community (Sebastiania & Cahyo, 2016). In this study, the independence ratio is used to assess the financial performance of local governments (Ermawati & Aswar, 2020). The ratio of regional financial independence is the ability of local governments to finance all government activities, development and services to the public in their respective regions with regional revenue sources from paying taxes and levies. The lower the level of regional dependence on the central government, it can be said that the region has a high regional financial independence ratio (Rosemarry & Barry, 2016)

According to Law no. 33 of 2004 Article 1 Number 18, "Regional Revenue is an effort obtained by the region which is collected based on regional regulations under statutory regulations where the source of regional revenue consists of regional tax results, regional levies, proceeds from the management of separated regional assets, and income which sources of regional revenue consist of regional taxes, regional levies, regional wealth management results, and other Legitimate regional revenue. The ability of a region to explore regional revenue affects the development of a region". Economic development cannot run smoothly if it is borne by the central government (Wahyuningsih, 2016), but the role of the regional government is needed through regional revenue

from each region to meet the regional expenditure budgets needed in the economic development process (Kusuma, 2016)

Budianto & Alexander (2016) show that the greater the regional revenue, the better the regional financial performance following the principles of regional autonomy which increases the government's financial performance. Antari & Sedana (2018), Heryanti et al. (2019), Tahir et al. (2018), Malau et al. (2019) found that "regional revenue has a significant positive effect on the financial performance of regional governments." Regional revenue has an important role because through this regional revenue it can be seen to what extent a region can finance government activities and regional development so that regional governments continue to improve their financial performance growth. Mulyani & Wibowo (2017) and Putri & Darmayanti (2019) get different results, "regional revenue has a significant negative effect on the financial performance of regional governments, regional governments with large regional revenues do not necessarily improve the financial performance of regional governments because the financial efficiency of assessing the financial performance of regional governments is still poor."

The regional revenue of Tabanan Regency in 2016 and 2017 has increased by 0.95 percent and 0.74 percent, respectively. However, in 2018 there was a decrease in income due to the closure of star hotels in Tabanan Regency with a decreasing percentage of 0.85 percent. It can be concluded that the development of regional revenue from Tabanan Regency tends to fluctuate each year. These fluctuations can be caused by changes in regional revenue, balanced funds, and capital expenditures. Tabanan Regency is one of the capitals supporting region in Bali Province, along with Denpasar City, Badung Regency, Gianyar Regency, and Tabanan Regency (Kusumawati & Sedana, 2018). Of the four regions, Tabanan Regency has the lowest regional revenue and fluctuates the most each year, seen from the data published by the Central Statistics Agency of Bali Province, the average income in the last 5 years is only IDR 352.2 billion.

Regional revenue and balanced funds have a very large role as a source of development financing and ultimately encourage regional economic growth (Adiputra et al., 2018). Balanced funds affect the financial performance of regional governments, what if the funds received from the central government will show that the regional governments are increasingly dependent on the central government for their regional needs so that the financial performance of regional governments will decline (Awwaliyah et al., 2019). In 2015, the receipt of the balance fund from Tabanan Regency was IDR 815.8 billion and was the lowest in the last 5 years, the following year in 2016 it increased by 0.74 percent. In 2017 and 2018, the receipt of the Tabanan Regency balanced fund decreased by 0.99 percent and 0.97 percent respectively. However, the result of the 2018 deficit resulted in an increase in the receipt of balanced funds by 0.99 percent in 2019.

Balance funds in Tabanan Regency is the highest with an average of IDR 1.03 trillion compared to the average revenue of balance funds in Badung Regency which is only IDR 511 billion, the average revenue of balance funds in Denpasar City is IDR 831 billion, and the average revenue Gianyar Regency balanced fund is only IDR 872 billion. Tabanan Regency is not yet independent enough in fiscal management and still depends on transfer funds or balanced funds from the central government. The average self-reliance ratio in Tabanan Regency has the lowest percentage, 24.15 percent compared to Gianyar Regency with 57.03 percent, Denpasar City with 81.81 percent and the highest is Badung Regency reaching 490.23 percent.

The balanced fund is a fund that comes from the State Revenue and Expenditure Budget which is allocated to the region to finance regional needs, which consists of Production Sharing Funds, General Allocation Funds, and Special Allocation Funds (Jumiati et al., 2019). Bolen & Payamta (2019) shows that the higher the balance funds received by a region, the better the regional government's financial performance is due to the availability of funds that can be used to finance government administration and provide services to the community, so it can be said that the balance funds have a significant positive effect on financial performance. regional government. Verawaty et al. (2020), the higher the balance funds received from the central government to the regional government, the stronger the dependence of regional governments is in meeting their regional needs so that the financial performance of regional governments will decline. Widyastuti & Rahmawati (2020) stated that balanced funds also have a significant negative effect on regional financial performance. The research that has been carried out shows that the regional revenue and balance funds are very important to analyze to see how much influence each variable has on the financial performance of the regional government because it is a regional government's success in managing regional finances for the welfare of its people.

H1: Regional revenue has a significant positive effect on the financial performance of regional governments.

H2: Balanced funds have a significant negative effect on the financial performance of regional governments.

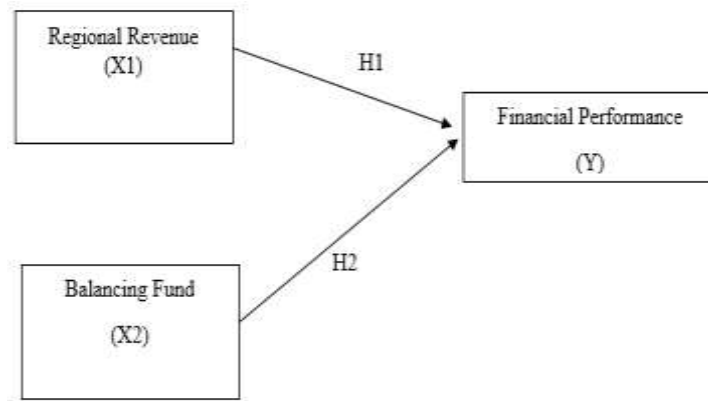


Fig. 1 Conceptual framework

II. RESEARCH METHODS

3.1 Research Design

This study used an associative approach to determine the effect of regional revenue and balance funds on the financial performance of the regional government of Tabanan Regency. The type of data in this study uses secondary data in the form of a report on the realization of the Tabanan expenditure budget for the 2015-2019 fiscal year. The population and sample used in this study were the Tabanan Regency government. The sampling method used was saturated sampling method or census, in which all members of the population were sampled. Collecting data in this study using non-participant observation methods. The analysis technique used is multiple linear analysis

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

- Y1 = Regional Government Financial Performance
- β_0 = Intercept
- β_1 to β_2 = The regression coefficient to be calculated
- X1 = Original Regional revenue
- X2 = Balancing Fund
- e = Standard error

3.2 Operational definition of the variable

3.2.1 Regional Government Financial Performance (Y) (Y)

Regional government financial performance is the achievement of results in the regional finance sector in 2015-2019. The measurement scale used is the ratio of regional financial independence and is expressed in percentage units

$$\text{Independence Ratio} = (\text{Original Regional revenue}) / (\text{Assistance and Loans}) \times 100\%$$

3.2.2 Regional revenue (X1)

Original regional revenue is the income received by the Tabanan district government in 2015-2019. The total revenue is obtained from regional taxes, regional levies, the proceeds from segregated wealth management, and other legal regional revenue.

3.2.3 Balanced fund (X2)

Balanced funds are bound transfer funds from the central government provided to the Tabanan government in 2015-2019. The total balance fund is obtained from profit sharing funds, general allocation funds, and special allocation funds.

III. RESULTS AND DISCUSSION

Table 1. Multiple Linear Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	F	Sig.
	B	Std. Error	Beta				
1 (Constant)	36.929	.329		112.350	5540.573	5540.573	.000 ^b

Regional Revenue	9.092E-8	.000	1.149	97.501	.000
Balanced Funds	-3.361E-8	.000	-1.057	-89.692	.000

$$Y = 36.929 + 1.149X_1 - 1.057X_2 + \varepsilon$$

$$\text{Adjusted R Square} = 1.000$$

Table 1 indicate, A constant value of 36,929 indicates that without the influence of the two independent variables, the level of regional government financial performance is considered constant at 36,929. The regional revenue regression coefficient value is 1.149 with a significance value of 0.000, indicating that each increase in the regional revenue value of one unit will affect the increase in regional government financial performance by 1.149 units with the assumption that the other variables are constant. The regression coefficient value of the balance fund of -1.057 with a significance value of 0.000 indicates that each increase in the value of the balance funds of one unit will affect the decline in regional government financial performance of -1.057 units, assuming that the other variables are constant. F-count (5,540,573) is bigger than F-table (19,000) and Sig. F test (0.000) $< \alpha$ (0.05), so it can be concluded that there is a simultaneous and significant influence between the variable regional revenue and the Balanced fund on Regional Government Financial Performance. The value of Adjusted R Square is 1,000, which means that 100 percent of the variation or change in the financial performance of regional governments is explained by regional revenue and balance funds

4.1 Regional Revenue on Financial Performance of the Regional Government

The t value of regional revenue obtained is 97,501 with a significant value of 0,000 less than 0.05. This means that regional revenue has a significant effect on the financial performance of regional governments. The regression coefficient value of regional revenue is 1.149, which indicates a positive influence between regional revenue and regional government financial performance. Based on these results, it can be concluded that **regional revenue has a significant positive effect on the financial performance of regional governments so that the first hypothesis is accepted**. The greater the regional revenue received by the regional government reflects the better management of the region towards the potential sources of income that the region has for. This explains that the greater the regional revenue earned will make the financial performance of the regional government increase. Regional revenue is all regional revenue that comes from the original regional economic sources. Therefore, the region can carry out levies in the form of tax revenues, levies, proceeds from the management of separated regional assets, and other legal regional revenues that are regulated by law (Omodero et al., 2018). An increase in regional revenue will increase the government's financial performance. This can happen because the Tabanan Regency Government emphasizes the results of their regional revenue coming from various sources managed by the region in the form of tax revenues, levies, and other revenues that are legally regulated in the Law.

4.2 Balanced Fund on Financial Performance of the Regional Government

The t value of the balanced fund obtained is -89,692 with a significant value of 0,000 less than 0.05. This means that the Balanced fund has a significant effect on the financial performance of regional governments. The regression coefficient value of Balanced funds is -1.057 which indicates a negative influence between Balanced funds on Regional Government Financial Performance. Based on these results, it can be concluded that the **Balanced fund has a significant negative effect on the financial performance of regional governments so that the second hypothesis is accepted**. The greater the balance of funds obtained by the regional government reflects the high dependence of the region on the central government in infrastructure development activities in the region. This explains that the greater the disbursed balance funds will make the regional government's financial performance decline. The Balancing Fund, which includes tax and non-tax revenue sharing, as well as the General Allocation Fund and the Special Allocation Fund, is a transfer fund provided from the central government to regional governments to finance excess regional spending. If the realization of regional expenditure is higher than regional revenue, there will be a deficit. Therefore, to cover the shortage of regional spending, the central government transfers funds in the form of balance funds to regional governments (Aswar, 2019). The larger the Balanced Fund transfers received from the central government, the stronger the regional governments depend on the central government to meet their regional needs. The size of the balance fund receipts greatly affects financial performance. The high dependence of regional governments on balanced funds means that these regions do not have the authority and freedom in terms of using revenue sources so that the principle of regional autonomy will be difficult to achieve if regional governments are still dependent on balance funds (Karimah et al., 2020).

4.3 Research Implications

Regional governments with high regional revenues show high financial performance as well. Regional governments are expected to explore and see the resources they have to improve the financial performance of their regional governments, so that management can optimize not only one revenue, but all regional potentials to gain opinion. It is hoped that regional governments in the use of the balanced fund can be implemented according to the expected objectives. The greater the receipt of funds obtained, the more likely it will affect financial performance. Regional governments need to reduce the revenue of balance funds by further increasing revenue from within the region so that with small balanced fund receipts the regional government is said to be able to finance all the needs of its government and later can improve the financial performance of regional governments

IV. CONCLUSION

5.1 Conclusion

Regional revenue has a significant positive effect on the financial performance of the regional government of Tabanan Regency. The balanced fund has a significant negative effect on the financial performance of the regional government of Tabanan Regency.

5.2 Suggestions

The government is expected to increase regional revenue by exploring the potentials that exist in the region. In addition, an increase in regional revenue will certainly reduce dependence on Balanced Funds from the central government which reflects the good financial performance of regional governments.

5.3 Research Limitations and further research

This research was only conducted using secondary data from the regional government financial reports of Tabanan Regency 2015-2019, without confirmation in the form of interviews or questionnaires to determine the obstacles in achieving good performance. For further researchers, it is hoped to add other variables that can affect regional financial performance.

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