The Effect of Local Own-Source Revenue, Balance Funds and Capital Expenditures on the Financial Performance of Regency/City Governments in Bali Province

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Abstract: Regional financial performance can be seen from the efficiency and authority of government administration in community services and development, including in dependent regional financial management so that regions can complete the development process without waiting for financial assistance from the center. The purpose of this study was to see whether Local Own-Source Revenue, Balancing Funds and Capital Expenditures affect the Financial Performance of Local Governments in nine regency / cities in Bali Province. The data used in this study are quantitative secondary data in the form of reports on the realization of regional budget. The analysis method used is multiple linear regression. Based on the results of the analysis, the results show that simultaneously Local Own-Source Revenue, Balancing Funds and Capital Expenditures have an effect on Regional Government Financial Performance. Partially Local Own-Source has a significant positive effect on financial performance. Balanced funds have a significant negative effect on financial performance. Capital expenditure does not have a significant effect on the financial performance of regency / cities in Bali Province in 2014-2019.

Keywords: Local own-source revenue, balance funds, capital expenditures, governments financial performance.

I. INTRODUCTION

The local government is the party that is mandated to manage funds from the community, so the success or failure of fund management depends very much on the local government agencies that carry it out (Adiputra, 2018). Regional autonomy opens opportunities for each region to explore all regional potential and work on its resources. This is an opportunity for local governments to prove their ability to exercise their authority in order to create efficiency and effectiveness of government administration in community services and development, including in dependent regional financial management so that regions can complete the development process without waiting for financial assistance from the center.

The era of regional autonomy as it is now in realizing good governance, the governor seeks to increase transparency and accountability in the management of state finances (Pramono, 2014). The Province of Bali has also implemented a policy of regional autonomy in regulating and managing its own regional interests. This can be seen from the success of the decisions of several regional heads in managing their regional finances by providing free services to the education and health sectors. In line with the implementation of regional autonomy, the regional budget is sourced from Local Own-Source Revenue, hereinafter referred to as Local Own-Source Revenue and revenue in the form of balance funds originating from the state regional budget.

The objective of regulating regional finance by local governments is to increase efficiency and effectiveness in the management of regional financial resources. In addition, improving regional welfare and optimizing services to the community. According to the Human Development Index (HDI), it explains the standard of living worthiness of the
community in terms of many aspects such as education, health, economic level and so on. This measurement reflects the level of community welfare (Priyono., Et al, 2020). The presentation of financial statements is a form of written accountability for the financial performance that has been achieved (Mahmudi, 2016: 2).

Financial performance is a measurement of performance using financial indicators. Meanwhile, performance measurement is the process of continuous monitoring and reporting of achievement of activities, especially progress on planned goals. Continuous performance measurement will provide feedback, so that continuous improvement efforts occur to achieve future goals. Performance measurement of institutions or organizations does not only apply to profit-oriented institutions or organizations, but also needs to be carried out in non-commercial institutions or organizations or government agencies that are non-profit. Measurement of financial performance has many objectives, among others, to increase the accountability of local governments. In addition, measuring regional financial performance will also benefit Indonesia in the process of making policies on regional financial management (Purba and Bimba, 2019). Masun et al., (2007: 165) stated that measuring the financial performance of local governments is very important. This is done to determine the level of success of local governments in managing their regional finances and to find out the extent to which the government carries out its duties in running the government in implementing development and services to the community by submitting financial accountability reports.

The financial capacity of a region can be seen from the size of the local own-source obtained by the region concerned. Local own-source is a source of local government revenue that comes from the economic activities of the region itself. The revenue of local own-source Regency / Cities in Bali varies widely, which is influenced by the potential of the region, especially the tourism sector. According to Law Number 33 of 2004 concerning the financial balance between the central and regional governments, the source of local own-source consists of local taxes, regional levies, regional wealth management results, and other legal regional revenues.

Optimization of local own-source revenues must be supported by local government efforts to improve the quality of public services. Overexploitation of local own-source will burden the community, become a disincentive for the regions, and threaten the macro economy. Based on this understanding, it can be concluded that local own-source is the amount of money received from the community or sources in their own area during the calendar year. Local own-source is used to finance routine expenses, while the rest is used for development costs in accordance with applicable laws and regulations. The greater the government's local own-source financial performance is due to the higher level of regional independence. The local budget allocation for improving public services and infrastructure development will increase the capacity of the regional economy. Increasing the capacity of the regional economy encourages the improvement of community welfare (Purbadharmaja, 2019).

Apart from local own-source, the government has another source of funds, namely the balancing fund which is a tangible manifestation of decentralization from the center to the regions so that there are no gaps between regions. Balancing Funds in Law no. 33 of 2004 concerning the balance between Central Government finances and Regional Government finances, defined as funds originating from the State Budget allocated to regions to finance regional needs in the context of implementing decentralization. The greater the balancing fund indicates that the financial performance of the local government is not good because of the low level of independence or the independence of the local government.

Capital expenditure is also a factor that affects regional financial performance (Tahir et al, 2019). Capital Expenditure Regulation of the Minister of Finance (PMK) No.91 / PMK.06 / 2007 concerning Standard Chart of Accounts states that capital expenditure is a budget expenditure that is used to acquire or add to fixed assets and other assets that are profitable for more than one accounting period and exceed the minimum capitalization of fixed assets or other assets determined by the government. Fixed assets are used to operate the daily activities of the work unit, and are not for sale. Capital expenditures are used for expenditures made in the context of purchasing or procuring or building tangible fixed assets. This asset has a beneficial value of more than 12 (twelve) months to be used in government activities. Examples are in the form of land, equipment and machinery, buildings, roads, irrigation and networks, and other fixed assets.

Malau et al., (2019) found that local government revenue has a positive and significant effect on the financial performance of local governments in the Regency / City of North Sumatra Province. Lamaon and Jane., (2017) found that revenue generated by district governments has a positive and statistically significant effect on local government in Kenya. Awwaliyah et al., (2019) and Yuliansyah (2019) also found that local revenue has a positive effect on the government's regional financial performance. However, this contradicts the research conducted by Thalib (2019) which found that local revenue has a negative effect on regional financial performance.
Awwaliyah et al., (2019) found that balancing funds have a negative effect on local government financial performance. Suseno (2018), Wiheryanti (2019) and Thalib (2019) find that balancing funds have a negative effect on local government financial performance. However, this contradicts the research conducted by Malau et al., (2019) which found that balancing funds have a positive and significant effect on the financial performance of local governments in the Regency / City of North Sumatra Province.

Thalib (2019) who found that capital expenditure has a negative effect on regional financial performance. However, this contradicts research conducted by Malau et al., (2019) which found that capital spending has a positive effect on the Financial Performance of Regional Governments in the Regency / City of Sumatra Province and Hendawati et al., (2018) found that capital expenditure has a positive effect on the level of regional financial performance. The background of the problem in this study states that there are differences in the results of previous studies regarding the effect of local own-source, balanced funds and capital expenditures on the financial performance of local governments in Bali Province. This research was conducted to clarify the findings of previous studies so as to encourage researchers to conduct research.

II. CONCEPTUAL MODEL AND HYPOTHESES

Local own-source revenue can be interpreted as revenue derived from levies made by local governments based on applicable regulations that can be imposed on any individual or business entity. They are government and private because of the acquisition of services provided by local governments. Therefore, local governments can collect fees in the form of tax revenues, levies and other official revenues that are regulated in law (Julitawati, et al., 2018).

The amount of local own-source revenue generated by local governments can be used as a measure in assessing the financial performance of local governments because the amount of local own-source also shows that local governments are able to utilize existing resources and potential within their authority. It can be said that the higher the local own-source, the higher the financial performance of local governments. The results of research conducted by Thalib and Ekaningtias., (2019), Malau et al., (2019), and Awwaliyah et al., (2019) show that local own-source has a significant positive effect on the financial performance of local governments.

H1: Local own-source revenue has a significant positive effect on the financial performance of regency / cities in Bali Province

Local government revenue allocated by the central government aims to reduce the imbalance of government funding sources between the central and regional governments. If the realization of regional spending is higher than regional revenue, there will be a deficit. According to Sari (2016), to cover the shortage of regional spending, the central government will allocate funds in the form of balancing funds to local governments.

The balancing fund will be included in the regional government revenue account, thereby increasing the total local government revenue. In this case, local governments still depend on the central government. The higher the balancing fund, the lower the financial performance of local governments. Research conducted by Awwaliyah et al., (2019), Thalib and Ekaningtias., (2019) and Dilliana et al., (2013) stated that balancing funds have a significant negative effect on regional financial performance.

H2: Balanced funds have a significant negative effect on the financial performance of regency / cities in Bali Province

Capital expenditures are local government expenditures in the context of purchasing or building fixed assets that have a useful value for more than one period. It can provide services to communities that have direct and indirect benefits. Large capital expenditures are a reflection of the many infrastructure and facilities implemented (Thalib & Ekaningtias., 2019). Capital expenditure is government expenditure that is used as investment to increase regional income (Malau et al., 2019).

The greater the expenditure used for development activities, the greater the increase in community economic activities. If the economic activity of the community increases, it will also increase the flow of local own-source revenue. One aspect that causes government spending to not affect financial performance is because government spending is mostly allocated to personnel expenditure rather than financing, so that government spending tends to increase not in line with an increase in regional income.

From year to year, regional development financing by local governments has increased so that it is unable to trigger an increase in the amount of regional income to increase self-reliance (Sartika et al., 2019). Thalib and Ekaningtias., (2019)
in their research found that capital spending has a negative effect on the financial performance of local governments in North Sumatra Province. Another study finding by Sartika et al., (2019) found that capital expenditure has a significant negative effect on local government financial performance.

**H₃**: Capital expenditure has a significant negative effect on the financial performance of regency / cities in Bali Province

![Figure 1: Conceptual Model](image)

### III. RESEARCH METHODS

The location of the research area used are nine regencies / cities in Bali Province, namely Jembrana Regency, Denpasar City, Badung Regency, Gianyar Regency, Tabanan Regency, Klungkung Regency, Bangli Regency, Karangasem Regency, and Buleleng Regency. Regional financial performance variables used in this study are calculated using financial ratio techniques. The measurement scale used is the independence ratio expressed in percentage units with the following formula.

\[
\text{Independence Ratio} = \frac{\text{Local own source revenue}}{\text{Central / Provincial Government Assistance and Loans}} \times 100\%
\]

The local own-source revenue variable used in this study is the data on the total realization of local own-source in Jembrana Regency, Denpasar City, Badung Regency, Gianyar Regency, Tabanan Regency, Klungkung Regency, Bangli Regency, Karangasem Regency, and Buleleng Regency in 2014-2019 which are contained in the regional budget realization report. expressed in natural numbers. The total revenue is obtained from local taxes, regional levies, proceeds from the management of separated regional assets, and other legal local own-source.

The variable of balancing funds in this study is the realization of the total balance funds of Jembrana Regency, Denpasar City, Badung Regency, Gianyar Regency, Tabanan Regency, Klungkung Regency, Bangli Regency, Karangasem Regency, and Buleleng Regency in 2014-2019 reports on the realization of the regional budget expressed in natural numbers. The total balancing fund is obtained from profit sharing funds, general allocation funds, and special allocation funds.

The capital expenditure variable used in this study is the data on the realization of the total capital expenditure of Jembrana Regency, Denpasar City, Badung Regency, Gianyar Regency, Tabanan Regency, Klungkung Regency, Bangli Regency, Karangasem Regency, and Buleleng Regency in the 2014-2019 regional budget realization report expressed in natural numbers. The total capital expenditure was obtained from spending on land, spending on equipment and machinery, spending on buildings and buildings, spending on roads, irrigation and networks, spending on other fixed assets.

The population and sample used in this study were the Jembrana Regency Government, Denpasar City, Badung Regency, Gianyar Regency, Tabanan Regency, Klungkung Regency, Bangli Regency, Karangasem Regency, and Buleleng Regency. The sampling method used was saturated sampling method or census, so that all members of the population were sampled. Collecting data in this study using non-participant observation methods. The data analysis technique used in this study is multiple linear regression analysis.
IV. RESULTS AND DISCUSSION

Multiple linear regression analysis is used to obtain an overview of the effect of local own-source revenue, balanced funds and capital expenditures on the financial performance of the Bali Province local government based on realization data which can be seen in the results of multiple linear regression in table 1 below.

<table>
<thead>
<tr>
<th>Coefficients*</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>11.249</td>
<td>2.310</td>
<td></td>
<td>-4.869</td>
</tr>
<tr>
<td>Local own-source revenue</td>
<td>1.184</td>
<td>.096</td>
<td>1.048</td>
<td>-12.363</td>
</tr>
<tr>
<td>Balance Funds</td>
<td>-.176</td>
<td>.071</td>
<td>-.118</td>
<td>-2.473</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>-.243</td>
<td>.150</td>
<td>-.138</td>
<td>-1.621</td>
</tr>
<tr>
<td>a. Dependent Variable: Financial Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data processed, 2021

Based on the results of the regression analysis as presented in Table 2, the following structural equations can be made: Y = -11.249 + 1.184X₁ - 0.176X₂ - 0.243X₃ + ε

The multiple linear regression equation above shows the direction of the influence of the local own-source revenue (X₁), Balanced Fund (X₂) and Capital Expenditure (X₃) variables on the dependent variable of Regional Government Financial Performance (Y). The positive sign on the regression coefficient means that there is a unidirectional influence between the independent and dependent variables, while a negative sign on the regression coefficient means that there is an opposite influence between the independent variables and the dependent variable.

The Effect of Local Own-Source Revenue on the Financial Performance of Regency / City Governments in Bali Province in 2014-2019

The results of this study indicate that local own-source revenue has a significant effect on the financial performance of regency / city governments in Bali Province in 2014-2019. The results of the analysis can be seen in table 1 which shows that the local own-source revenue regression coefficient value is 0.000 which is smaller than the significance level of 0.05. The local own-source revenue regression coefficient value of 1.184 indicates a positive influence between local own-source revenue on the financial performance of local governments.

The results of this study, which indicate a positive influence between local own-source revenue on the financial performance of local governments, indicate that the greater the local own-source revenue received by the local government reflects the good management of the region on the potential sources of income that the region has towards. This explains that the greater the local own-source revenue obtained, the higher the financial performance of the regional government.

Local own-source revenue is all regional revenue that comes from the original regional economic sources (Halim, 2014: 67). Therefore, the regions can carry out levies in the form of tax revenues, levies, proceeds from the management of separated regional assets, and other legal local own-source revenue regulated by law. An increase in local own-source revenue will result in an increase in the government’s financial performance. This can happen because the regency and city governments in Bali Province emphasize that the results of their local own-source revenue come from various sources managed by the regions in the form of tax revenues, levies and other revenues that are legally regulated by law.

The positive and significant effects generated in this study also support the results of research by Malau et al., (2019) and Ardhansyah (2019) which suggest that local own-source revenue has a significant positive effect on the financial performance of local governments. In addition, Lamaon and Jane (2017), Sari and Ichsan (2019) and Awwaliyah et al., (2019) also prove the same results that the local own-source revenue variable has a positive effect on the financial performance of local governments.

The Effect of Balance Funds on the Financial Performance of Regency / City Governments in Bali Province in 2014-2019

The results of this study indicate that the balancing fund has a significant effect on the financial performance of regency / city governments in Bali Province in 2014-2019. The results of the analysis can be seen in table 1 which shows that the
significance value of the balance funds is 0.017 which is smaller than the significance level of 0.05. The capital expenditure regression coefficient value of -0.176 indicates a negative influence between the balance funds on the financial performance of local governments.

The results of this study indicate that there is a negative influence between the balance funds on the financial performance of local governments, indicating that the greater the balance funds obtained by the regional governments reflect the high dependence of these regions on the central government in infrastructure development activities in these areas. This explains that the greater the disbursed balancing fund, the lower the financial performance of the regional government is.

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 with the aim of financing excess regional spending. If the realization of regional expenditure is higher than regional income, there will be a deficit. Therefore, to cover the shortage of regional spending, the central government allocates funds in the form of balancing funds to local governments. The greater the allocation of Balanced Funds 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 balancing funds means that these regions do not have the authority and freedom in terms of using sources of income so that the principle of regional autonomy will be difficult to achieve if regional governments are still dependent on balance funds.

The results of this study are in line with the results of research conducted by Suseno (2018), Awwaliyah et al., (2019), Wiheryanti (2019), Thalib (2019), Suambara and Darmayanti (2020) which found that balancing funds have a negative effect on regional financial performance, government.

The Effect of Capital Expenditures on the Financial Performance of Regency / City Governments in Bali Province in 2014-2019

The results of this study indicate that capital expenditure does not have a significant effect on the financial performance of regency / city governments in Bali Province in 2014-2019. The results of the analysis can be seen in table 1 which shows that the significance value of capital expenditure is 0.111 which is greater than the significance level of 0.05. Capital expenditure regression coefficient value of -0.243 indicates a negative influence between capital expenditure on local government financial performance.

The results of this study indicate that there is no influence between capital expenditure on regional government financial performance, which indicates that the greater the capital expenditure issued by the regional government reflects the high dependence of these regions on the central government in infrastructure development activities in these areas but does not have an impact on the financial performance of local governments.

Capital expenditures are used for expenditures made to purchase or procure tangible fixed assets that have a useful value of more than 12 (twelve) months to be used in government activities that can add added value to financial performance. Capital expenditure does not affect the financial performance of local governments because the Regency / City of Bali Province has not optimally managed its regional funds, especially in planning capital expenditures. This results in the absence of sources that generate in the form of infrastructure development as well as facilities and infrastructure needed by the State and Regions that are contained in capital expenditures, so there will be no revenue received by local governments which leads to a decrease in the level of government performance. So that large capital expenditures do not reflect the existence of infrastructure and facilities built.

The results of this study support the research conducted by Susanti and Ratih (217) which states that capital expenditure does not have a significant effect on financial performance. Local governments have different authority over public services, the higher the local government's authority over public services, the capital expenditure for service provision will increase so that the financial performance of local governments will increase. The results of this study are relevant to the results conducted by Wiguna (2015), Thalib and Ekaningtias (2019), Sartika et al., (2019), Malau et al., (2019) and Suambara and Darmayanti (2020) that capital expenditures are not affect the financial performance of local governments. However, this study contradicts the results of research obtained by finding that capital expenditure has a positive and significant effect on the financial performance of local governments, and Hendawati et al., (2018) found that capital expenditure has a positive effect on the level of regional financial performance.
V. CONCLUSION AND SUGGESTIONS

Based on the research analysis, it can be concluded that, local own-source revenue shows a significant positive effect on the financial performance of the Regency/City government in Bali Province in 2014-2019, which means that the receipt of wealth from the region itself in the form of local own-source revenue by the regional government can improve the financial performance of the regional government. High revenue from local own-source revenue reflects an increase in the government's good financial performance. Balanced funds show a significant negative impact on the financial performance of regency/city governments in Bali Province in 2014-2019, which shows that the greater the balance funds received by local governments reflect the high dependence of these local governments on funding from the central government in meeting regional needs. This explains that the greater the balance of funds received reflects the decreasing financial performance of the regional government. Capital expenditures do not show a significant effect on the financial performance of regency/city governments in Bali Province in 2014-2019. This explains that the level of capital expenditure cannot determine whether the performance of a local government is good or bad, especially in the Regency/City of the Bali Province.

Based on the results of the study, the researchers provided the following suggestions. For further researchers, it is hoped that they can add other variables that can affect regional financial performance. In addition, this research was only conducted using secondary data from the 2014-2019 local government financial reports, without confirmation in the form of interviews or questionnaires to determine the obstacles in achieving good performance. For the provincial government in Bali it is hoped that the welfare of all existing regency / city, so that development is evenly distributed so that there are no more significant gaps in local own-source revenue. The regional government as the authority to manage local government finances is expected to be able to maintain and increase local own-source revenue through intensification, namely by coaching, and extensification, namely by exploring regional potential, because Regional Original Income is the determinant of regional independence itself. In addition, through an increase in local own-source revenue, it will be able to finance its own regional spending and be able to increase regional economic growth, thereby reducing the transfer of balance funds from the central government as a form of regional independence in financing its purchases.

REFERENCES


