

# The Effect of Regional Original Revenue, Balance Funds, and Capital Expenditures on the Financial Performance of District Governments in West Java Province in 2013-2017

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**Abstract**—This study is aimed to test the Effect of Local Revenue on financial performance, Equalization Funds on financial performance, and Capital Expenditures on financial performance on Regencies in West Java for Year 2013 – 2017. This research uses descriptive quantitative approach, which is measured using multiple linear regression based method use SPSS 25.00. The population from this research are Budget Realization Report of Regencies in West Java for Year 2013 – 2017. Sample was determined by purposive sampling method, and get 10 samples. The data used in this study are secondary data. Data was collected by Dirjen Perimbangan Keuangan official website: [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id). Hypothesis testing are using partial test and simultaneous test. The result of the research shows that Local Revenue partially has positive and significant effect on the financial performance, Equalization Funds partially has negative and significant effect on the financial performance, Capital Expenditures partially has positive and significant effect on the financial performance, and Local Revenue, Equalization Funds, and, Capital Expenditures simultaneously have positive and significant effect on the financial performance on Regencies in West Java.

**Keywords:** *Local Revenue, Equalization Funds, Capital Expenditures, financial performance*

## I. INTRODUCTION

The importance of implementing regional financial management in a professional, accountable and transparent manner, it is necessary to know the extent of the reliability of the Regional Financial Statements, one of the ways is by analysing the financial ratio to the Regional Budget. The ratio consists of the degree of decentralization, the ratio of regional financial dependency, and the ratio of regional financial independence.

West Java Province is one of the regions in Indonesia that applies the principle of transparency in its Regional Financial Statements. Given that West Java is a buffer province of the Capital City of Indonesia and is a densely populated area with many interests in it. This encourages the author to conduct research related to the Realization of the District Government's

APBD Report in West Java Province. The financial ratio to district budget in West Java Province is described in the following figure 1:

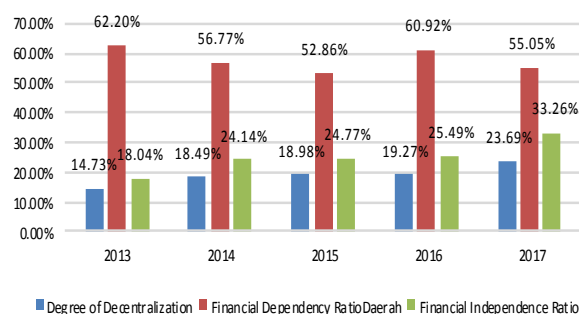


Fig. 1. Financial ratios realization report of district government APBD in West Java Province.

Figure 1 shows that the decentralized distribution of the District Government in West Java Province has increased every year in the period of 5 years, namely from 2013 to 2017. While the ratio of regional financial dependency of the Regency Government in West Java Province for 5 years has decreased in almost every year. The regional financial independence ratio has increased every year. Calculation of the trends of the three ratios looks good, but the District Government in West Java Province still needs to improve each of the achievements of each financial ratio.

In addition to the analysis of financial ratios to the APBD Realization Report, the performance of the Regional Government can also be assessed from an analysis of regional expenditure performance. The researcher uses two ratios in the analysis of regional expenditure performance, namely, the ratio of capital expenditure to total expenditure and the ratio of expenditure efficiency. The ratio of the measurement of regional government expenditure performance in the District of West Java Province is described in Figure 2.

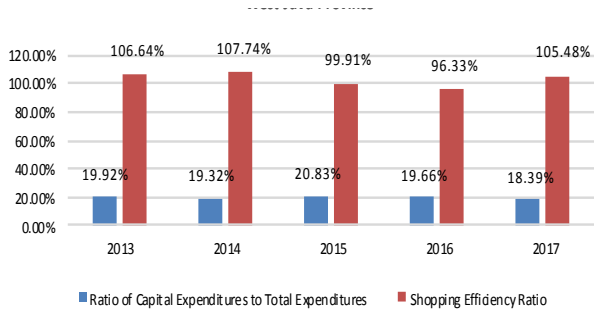


Fig. 2. Regional government shopping district performance ratio in West Java Province.

Figure 2 shows that the ratio of capital expenditure to total expenditure tends to be stable for 5 years. This shows that there is no large increase in the allocation of capital expenditure by the Regency Government in West Java Province.

Meanwhile, for the District Government's Efficiency in Government Spending Ratio in West Java Province tends to fluctuate from 2013 to 2017. The ratio of expenditure efficiency decreases fluctuating, so that the Regency Government in West Java Province still needs to do efficiency in regional spending.

The Regency Government in West Java Province in implementing the regional autonomy system, is demanded to be able to increase the source of income in the form of Regional Original Revenue (PAD), Balance Funds (Transfer Funds) and Other Legitimate Regional Revenues. So that it is expected to be able to finance all regional needs in order to provide infrastructure and other regional needs through the allocation of capital expenditures in the regional budget. The allocation of capital expenditure in order to meet regional needs for facilities and infrastructure, is expected to encourage the smooth implementation of government tasks in meeting public facilities and the quality of public services. This can be realized if the local government changes the composition of its expenditure so that its utilization can be more absorbed for productive matters, such as carrying out infrastructure development and adding public service programs. Revenue management and expenditure allocation can affect the success of the financial performance of the District Government in West Java Province.

Based on the background of the problem above, the researcher intends to conduct research under the title "The Effect of Regional Original Revenue, Balance Funds, and Capital Expenditures on the Financial Performance of District Governments in West Java Province in 2013 - 2017".

#### A. Formulation of the Problem

Based on the above background, the formulation of the problem in this research are:

- How does the influence of Original Regional Revenue on the Financial Performance of District Governments in West Java Province?

- How is the influence of the Balancing Fund on the Financial Performance of District Governments in West Java Province?
- How does the influence of capital expenditure on the financial performance of district governments in West Java Province?
- How is the influence of PAD, Balance Funds, and Capital Expenditures on the Financial Performance of District Governments in West Java Province?

## II. THEORETICAL FRAMEWORK

### A. Regional Revenue and Expenditure Budget (APBD)

In act, it is stated that what is meant by the Regional Revenue and Expenditure Budget (APBD) is the annual financial plan of the Region established by Regional Regulations. Whereas in Article 309 it is stated that the Regional Budget is the basis for managing Regional finances within 1 (one) fiscal year in accordance with the Law on state finances [1].

The financial statements prepared by the Regional Government are mentioned in Article 320 concerning Accountability for the Implementation of the Regional Budget. The financial statements referred to at least include: Budget Realization Reports; Statement of Changes in Budget Balance More; Balance; Operational Report; Cash flow statement; Statement of Changes in Equity; and Notes to Financial Statements (attached with summary of BUMD financial statements) [1].

The main focus of this research is the Budget Realization Report (LRA). LRA is a report that presents a comparison between the budget and its realization in the context of budget execution in one reporting period. Information in the LRA can be used to evaluate the entity's compliance with the budget, accountability and economic resource allocation decisions.

Explains the indicators of productivity or entity performance can also be seen from the level of budget absorption presented in the LRA [2].

APBD Realization Reports are made by each region as a regional responsibility, which will be conveyed to the central government or to the community in the management of regional finances. In the APBD Realization Report there are posts consisting of Regional Revenue, Regional Expenditure, and Regional Financing.

### B. Local Own Revenue (PAD)

Based on Law, Regional Original Revenue (PAD) is revenue that is earned by the region based on regional regulations in accordance with statutory regulations. Consists of Regional Tax Revenues, Regional Retribution Revenues, Revenue Results of Separated Regional Wealth Management, and Other Legitimate PAD [1,3].

Describe that indicators to assess the level of independence of an area in managing its finances can be seen from the PAD,

if the PAD ratio is higher than the amount of revenue, then the level of regional independence is also higher [4].

PAD is revenue that is recognized as an addition to current assets generated by regions in their jurisdiction within one fiscal year [5].

### *C. Local Government Retribution*

Levies that local governments make levies as payments for the granting of certain licenses or services specifically provided by local governments for personal or corporate interests. In the same law, it is stated that there are 30 types of user fees that can be collected by the region and classified into three categories, namely public service fees, business service fees, and certain licensing fees [6].

### *D. Regional Government Transfer Funds*

Law No. 33/2004 concerning Fiscal Balance between the Central Government and Regional Governments, states that the Balancing Fund is a fund sourced from APBN revenues allocated to the Regions to fund regional needs in the context of the implementation of Decentralization. In the same Law Article 10 states that the Balancing Fund consists of Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds [3].

### *E. Capital Expenditure*

Capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period. Capital expenditure includes, among others, capital expenditure for the acquisition of land, buildings and buildings, equipment, intangible assets [7].

Capital expenditure is an expenditure made by the government to add fixed assets by providing benefits over a period in the context of capital formation, including expenses for maintenance costs to maintain the useful life and improve the quality of assets [4].

Capital expenditure consists of 5 main categories, namely Land Capital Expenditures, Equipment and Machinery Capital Expenditures, Building and Building Capital Expenditures, Road Capital Expenditures, Irrigation and Networks, and Other Physical Capital Expenditures [8].

### *F. Regional Government Financial Performance*

There were 3 (three) objectives that could be met from measuring local government financial performance, namely improving government performance, helping to allocate resources and making decisions, as well as realizing public accountability and improving institutional communication [9].

The effects of PAD and Balancing Funds on the Financial Performance of District / City Governments in North Sulawesi Province using the quantitative method of multiple linear regression analysis models. The results of this study indicate that both simultaneous PAD and Balancing Funds significantly influence the financial performance of local governments. Partially PAD has a positive effect on government financial performance, then the increase in PAD can improve the financial performance of local governments. While partially the

Balancing Fund negatively affects the financial performance of local governments, this means that the increase in the Balancing Fund results in a decrease in the financial performance of local governments [10].

The study, entitled *The Effect of Fiscal Decentralization, Fiscal Stress and Intergovernmental Revenue on the Financial Performance of Local Government*, was published in the International Conference and Call for Papers, 2017. The results of this study are that decentralization of income has a significant influence on regional financial performance, while balancing funds negative effect on regional financial performance [11].

## **III. METHODS**

The study entitled "The Effect of Regional Revenue, Balancing Funds, and Capital Expenditures on Financial Performance" was conducted in the districts in the province of West Java with a study period of 5 years from 2013 to 2017.

### *A. Research Population*

The population was taken from the Realization of Regional Revenue and Expenditure Budget Reports of all Regencies in West Java Province for the 2013-2017 Budget Year. The population in this study was 18 Regencies in West Java Province.

### *B. Research Samples*

This research uses purposive sampling method. Based on the determination of the characteristics of the population members adjusted to the purpose of the study. Samples taken in this study were 10 (ten) districts in West Java Province. Defined characteristics, have the largest average Regional Income during fiscal year 2013 - 2017.

### *C. Research Variables*

The independent variables used in this study consisted of Regional Original Revenue, Balance Funds, and Capital Expenditures.

1) *Locally generated revenue (PAD)*: Formulate what is used as follows:

$$\text{Locally generated revenue} = \text{Regional Tax} + \text{Regional Retribution} + \text{Local Wealth Management Results Separated} + \text{Other Legal PAD}$$

2) *Transfer fund*: The formula used is as follows:

$$\text{Transfer Fund} = \text{Revenue Sharing Fund} + \text{General Allocation Fund} + \text{Allocation Fund Special}$$

3) *Capital expenditures*: The formula used is as follows:

$$\text{Capital Expenditures} = \text{Land Expenditures} + \text{Equipment and Machinery Expenditures} + \text{Government spending Buildings} + \text{Government spending Roads, Irrigation, and Network} + \text{Other government fixed asset expenditure} + \text{Other asset expenditure}$$

The dependent variable in this study is the financial performance of the Regional Government, measured by the financial ratios, namely:

1) *Degree of decentralization*: The formula used is as follows:

$$\text{Degree of Decentralization} = \frac{\text{Locally Generated Revenue}}{\text{Total Generated Revenue}} \quad (1)$$

2) *Regional Financial Dependency Ratio (RFDR)*: The formula used is as follows:

$$\text{RFDR} = \frac{\text{Total Revenue}}{\text{Total Generated Revenue}} \quad (2)$$

3) *Regional Financial Independence Ratio (RFIR)*: The formula used is as follows:

$$\text{RFIR} = \frac{\text{Locally Generated Revenue}}{\text{Central Governance Transfer} + \text{Province} + \text{loan}} \quad (3)$$

4) *Ratio of capital expenditures on total expenditures*: The formula used is as follows:

$$\text{Ratio of Capital Exp on Total Exp} = \frac{\text{Realized Capital Expenditure}}{\text{Total Regional Expenditure}} \quad (4)$$

5) *Government Spending Efficiency Ratio (GSER)*: The formula used is as follows:

$$\text{GSER} = \frac{\text{Realized Government Expenditure}}{\text{Total Expenditure Budget}} \times 100\% \quad (5)$$

#### IV. RESULTS AND DISCUSSION

##### A. Description of Research Subjects

West Java is one of the provinces in Indonesia with an area of 35,378 km<sup>2</sup>. This province is located in the western part of Java Island, with the capital city of the province being in Bandung. The subjects of this study were 10 districts in West Java Province with the criteria of the largest average Regional Income from the 2013-2017 fiscal year.

TABLE I. AVERAGE REGIONAL INCOME IN WEST JAVA REGENCY FOR THE 2013-2017 BUDGET YEAR

No.	Region	Average Regional Revenue
1.	Kabupaten Bogor	5.786.321.401.056
2.	Kabupaten Bandung	4.314.513.813.869
3.	Kabupaten Bekasi	4.275.410.962.720
4.	Kabupaten Garut	3.520.911.885.636
5.	Kabupaten Karawang	3.282.079.208.787
6.	Kabupaten Sukabumi	3.143.578.402.972
7.	Kabupaten Cirebon	3.033.050.718.386
8.	Kabupaten Cianjur	2.999.232.599.798
9.	Kabupaten Tasikmalaya	2.812.373.240.145
10.	Kabupaten Indramayu	2.798.063.563.089
11.	Kabupaten Subang	2.376.810.069.414

No.	Region	Average Regional Revenue
12.	Kabupaten Majalengka	2.320.746.467.038
13.	Kabupaten Ciamis	2.289.948.848.475
14.	Kabupaten Sumedang	2.242.331.483.105
15.	Kabupaten Kuningan	2.188.349.244.569
16.	Kabupaten Bandung Barat	2.144.359.649.145
17.	Kabupaten Purwakarta	1.752.986.424.405
18.	Kabupaten Pangandaran	

TABLE II. STATISTICAL DESCRIPTION

	N	Minimum	Maximum	Mean	Std. Deviation
<i>PAD</i> ( <i>X</i> <sub>1</sub> )	50	70,474,192,115.00	3,041,872,447,905.35	800,424,023.966.46	658,875,443,116.63
<i>Daper</i> ( <i>X</i> <sub>2</sub> )	50	1,415,316,877,662.00	3,009,662,895,582.00	1,974,943,281,040.88	415,146,217,070.57
<i>BM</i> ( <i>X</i> <sub>3</sub> )	50	234,540,001,656.00	1,541,830,222,578.00	701,203,734.833.40	328,710,989,892.98
<i>KKD</i> ( <i>Y</i> )	50	198.51	287.32	230.68	23.31
<i>Valid N (listwise)</i>	50				

The table above explains the statistical description of 50 sample data with the dependent variable (consisting of PAD, Balance Fund (Daper), Capital Expenditure (BM)) and the independent variable Regional Financial Performance (KKD).

##### B. Hipotesis Test

TABLE III. T TEST (PARTIAL REGRESSION COEFFICIENT TEST)

		Unstd Coef	Std Coef			
<i>Model</i>		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>	<i>t</i>	<i>Sig.</i>
1	(Constant)	233.624	8.122		28.764	.000
	PAD (X <sub>1</sub> )	2.138E-11	.000	.604	4.698	.000
	Daper (X <sub>2</sub> )	-2.041E-11	.000	-.364	-4.823	.000
	BM (X <sub>3</sub> )	2.889E-11	.000	.407	3.142	.003

<sup>a</sup>. Depend Var : KKD (Y)

The significance value of PAD is smaller than 0.05 which is equal to 0,000 and has a t-test greater than t-table (2,138) which is equal to 4,698. Then it can be concluded that H1 is accepted and H0 is rejected, which means that PAD has a positive and significant effect on regional financial performance. This proves the higher the PAD obtained, the level of regional financial performance of the District Government in West Java Province is also higher. And conversely, the less PAD obtained, the lower the level of local government financial performance in West Java Province.

The significance value of the balance fund is less than 0.05 which is equal to 0,000 and has a t-test greater than t-table (-2.041) which is equal to -4.823. Then it can be concluded that H1 is accepted and H0 is rejected, which means that the balance fund has a negative and significant effect on regional financial performance. This proves that the less the balance of funds received, the higher the level of local government

financial performance in the Regency of Java, West Java. And conversely, the greater the balance of funds received, the lower the level of regional financial performance of the Regency Government in West Java Province.

The significance value of capital expenditure is smaller than 0.05 which is 0.003 and has a t-test greater than t-table (2.889) which is 3.142. Then it can be concluded that H1 is accepted and H0 is rejected, which means capital expenditure has a positive and significant effect on regional financial performance. This proves that the greater the allocation of capital expenditure, the level of regional financial performance of the Regency Government in West Java Province will be higher. And conversely, the less allocation of capital expenditure, the lower the level of local government financial performance in West Java Province.

## V. CONCLUSION

This study aims to determine the effect of Local Revenue, Balancing Funds, and Capital Expenditures on the Financial Performance of District Governments in West Java Province. The results obtained in this study are in line with previous theories and research, with the following conclusions:

- Regional Original Revenue partially influences the financial performance of Regency Governments in West Java Province. This is indicated by the t test with the results of the t value > t table ( $4.698 > 2.013$ ), so that Ho is rejected. A positive t value means that the Regional Original Revenue has a positive effect on the regional financial performance.
- The Balancing Fund partially influences the financial performance of District Governments in West Java Province. This is indicated by the t test with the results of t value < t table ( $-4.823 < -2.013$ ), so that Ho is rejected. A negative t value means that the balancing fund has a negative effect on the regional financial performance.
- Capital expenditure partially influences the financial performance of District Governments in West Java Province. This is indicated by the t test with the results of t value > t table ( $3.142 > 2.013$ ), so that Ho is

rejected. A positive t value means that capital expenditure has a positive effect on regional financial performance.

- Regional Original Revenues, Balancing Funds, and Capital Expenditures jointly have a positive effect on the financial performance of District Governments in West Java Province. This is indicated by the F test with the results of the calculated F value > F table ( $55.886 > 2.807$ ), so that Ho is rejected.

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