

STRATEGIES TO IMPROVE LOCAL GOVERNMENT FINANCIAL PERFORMANCE

Fanika^{1*}, Khairudin², Aminah³

^{1,2,3}Faculty of Economics and Business, Bandar Lampung University, Indonesia

*Corresponding Author:

fanika.20021031@student.ubl.ac.id

Abstract

This research aims to analyze the effect of PAD, capital expenditure, and balancing funds on the financial performance of local governments. With all regencies/cities in Lampung Province as the population in this study and 15 regencies/cities as samples. The data used in this study is in the form of secondary data and the data processing method used is multiple linear regression. The results of this study are: (1) PAD has a significant positive effect on the Financial Performance of Local Governments. (2) Capital Expenditure has a significant negative effect on the Financial Performance of Local Governments. (3) The Balancing Fund has a significant negative effect on the Financial Performance of Local Governments.

Keywords: PAD, Regional Expenditure, Balancing Fund, Performance Local Government, Finance

1. Introduction

Regional autonomy is not only a form of uncontrolled handover of power but also regulated using applicable government regulations to be able to carry out desentralization appropriately. Law Number 32 of 2004 Article 2 paragraph 2 concerning Regional Government states that local governments run their governments based on the principle of autonomy and assistance duties. Local governments can exercise the widest autonomy, except for central government affairs.

The public demands transparent accountability reports to have good financial and non-financial performance. With good financial performance, it will improve community services and welfare in a democratic, equitable, fair, and sustainable manner (Suprpto, 2017), increase productivity, savings, effectiveness, and efficiency in public sector institutions (Armaja et al., 2017), and also improve government performance in the next period in the form of tools to assess and restore performance with a comparison of labor principles (Zuhri & Soleh, 2016).

The phenomenon related to this study is in the form of problems related to financial management found during the examination of the 2022 Provincial Government Financial Statements by the Audit Board (BPK). It is known that fixed assets have not been processed properly and have not been in line with the provisions, so that the New Town area is not achieved to meet development goals as the new provincial capital which results in neglect and damage to construction and buildings under construction (KDP), which has the potential to burden regional finances. In addition, the problem of lack of work capacity of IDR 6.66 billion was found which was not in line with the specifications of IDR 2.36 billion in 156 construction works, namely cliffs, buildings, and roads by BPK (www.wartapemeriksa.bpk.go.id, 2023).

Some previous researchers who have studied the Strategy to Improve Local Government Financial Performance (Pemda) include: (Sukma et al., 2021) conducting

research to analyze the effect of Local Original Revenue (PAD), local government size, capital expenditure, regional revenue, and intergovernmental revenue on regional financial performance in South Sumatra shows that the variables of PAD, local government size, capital expenditure, regional revenue, and intergovernmental revenue, affect financial performance. While in research (Maulina et al., 2021) concluded that the Balancing Fund and PAD had a significant positive effect, while Government Size and Capital Expenditure had a positive insignificant effect on the financial performance of local governments. This is also true in research (Ardelia et al., 2022) which shows that PAD has an effect while capital expenditure does not have a significant impact and the balancing fund has a significant effect on the financial performance of local governments. The final conclusion concluded that the PAD, capital expenditure, and Balancing Fund were significant to the financial performance of the local government of Kabupatern Badung Bali Province. Other researchers (Prastiwi & Aji, 2020) Summing up the opinion in the form of PAD has a positive effect on financial performance, capital expenditure does not have a positive effect, special funds do not have a positive effect, balancing funds have a negative effect on the financial performance of the district/city government in Yogyakarta province.

The novelty of this research is in the form of objects Different research and the latest financial data from Lampung Province. In the previous study using all districts / cities in Sumatra with APBD data for 2020 (Sukma et al., 2021), while this study focuses on Districts / Municipalities in Province Lampung in 2022. Lampung Province was chosen as the object of this research because the government Lampung Province has successively received an Unqualified Fair Opinion (WTP) from BPK RI on the performance of the Regional Government Financial Statement Manager (LKPD) of Lampung Province in 2022.

This study aims to examine the effect of PAD, Capital Expenditure, and Balancing Fund on government financial performance. The results of this research are expected to contribute in the form of science that focuses specifically on Public Sector Accounting in the field of Accounting related to the financial performance of the Local Government and for the government and city residents tied to the financial performance of the Regional Government so that the Lampung Provincial Government can grow more appropriate financial performance while improving the parts that determine the success of the local government's financial performance.

2. Teoretical Background

2.1 Agency Theory

Agency theory is the basis of the understanding used in this research, sourced from (Jensen & Meckling, 1976) Agency theory is a program that defines a contextual relationship between two or more people, an institution or group as principals and agents. According to (Anggraeni, 2016) Agency theory is an agency bond when a particular party (principal) rely on a task to another party (agent) who does the work. The principal (legislative) depends on his obligations and the transfer of decision-making rights to the agent (executive) to carry out certain obligations based on mutually agreed agreements. According to (Hamdani, 2016) Agency theory It is analytical knowledge to analyze the effect on the relationship of agent and principal or principal and principal. Agency theory has an impact, among others, on corruption or misappropriation by agents, causing many occurrences Information asymmetry.

2.2 Financial Performance

Based on the 2006 Legislation No. 8 concerning Financial Reporting and Performance of Government Agencies explains that performance is the end or effect of an activity or business that will or has been achieved related to the use of funds at a valuable level and capacity. Local Government Financial Performance is the ability to control and find local sources of original income to complete their needs and run the government, development and service system so that the local government does not rely too much on the central government also has flexibility in managing funds for community needs within the limits set in laws and regulations (Andaresta et al., 2021). Regional financial performance is a measurement to check the proficiency of each region in order to implement its regional self-reliance (Maulina et al., 2021). On research (Mardiasmo, 2002) Explain that financial performance has benefits in presenting, reporting, accountability and disclosing all existing activities and activities are the obligation of the advising faction that holds the authority to demand such accountability. On research (Ardelia et al., 2022) Financial performance is useful for interpreting an achievement and encouraging good quality when managing regional finances. While according to (Digdowiseiso et al., 2022) Financial performance is useful for improving employees, operational effectiveness, and organization based on benchmarks, targets, standards that have been predetermined in a periodic way. Regional finances that are processed regularly can produce good financial performance as well. The look at the regional financial performance is intended to see the regional financial processing which is good or not. On research (Jinji et al., 2008) Performance can be measured by Value of Money which means efficiency, economy, and effectiveness. Meanwhile, on research (Mustafa et al., 2009) Performance is measured by financial ratios centered on the financial data of each region, namely the Regional Budget (APBD). Efficiency, independence, effectiveness, income growth, and capital compatibility are the ratios in the research. According to research (Digdowiseiso et al., 2022) explained that regional financial performance is calculated using Fiscal Dependence, Self-Reliance, and Decentralization.

2.3 Local Original Revenue (PAD)

In Law of 2014 No. 23, PAD is Revenue earned in each region taken in accordance with current regional laws and regulations. PAD is all regional revenues obtained in each region based on regional policies in ongoing laws (Mustafa et al., 2009). PAD is all the revenue of a region sourced from the trade of a region. PAD is one of the elements that make up the production of a region and this section will describe a region with its own characteristics (Maulina et al., 2021). According to (Ardelia et al., 2022) PAD is useful for funding government and development to realize the independence of a region as well as a source of funds and implementation of regional development. This is also in line with research (Fajar Nugroho, 2012) PAD can increase the independence of each local government, therefore this situation is related to the financial performance of local governments. PAD has a purpose to enlarge the financial level of a region and improve better financial performance can also be a fund to fund regional activities (Postulates et al., 2020). According to (Fajar Nugroho, 2012) The components of Regional Original Revenue include: the results of the management of separated regional wealth, regional levies, regional taxes, and other official PAD. In the 1999 Law article 79 No. 22 concerning Local Government, PAD is measured using money due to the power obtained from the community in the form of regionally owned companies, regional wealth management, regional levies, regional taxes, and other official regional revenues.

According to (Thalib, 2019) PAD Measured by using the magnitude of the comparison of the realization of PAD with the total regional income per previous year and measured by the realization of PAD which is facilitated based on the unit value of currency into a percentage unit value by proxiiing with logarithms.

2.4 Capital Expenditure

According to Law Regulation No. 71 of 2010, capital expenditure is the expenditure of a Government area whose use is more than 1 year of financial statements and becomes the capital or property of an area and increases continuous expenditures such as maintenance expenses on the general management expenditure collection. Meanwhile, on research (Mustafa et al., 2009) Capital Expenditure is the estimated cost used in acquiring fixed assets and other assets that have a function of more than 1 year or one accounting period. The same is true of research (Maulina et al., 2021) which explains that capital expenditure is the cost of acquiring fixed assets and other assets that have more use than 1 accounting year. With the higher capital expenditure, it will cause higher economic productivity so that regional financial performance will be better. According to (Indiyanti & Rahyuda, 2018) Capital expenditure is useful for accelerating economic growth and raising the standard of living of people in an area. According to (Martini et al, 2015) Capital expenditure has the purpose of increasing public trust. While according to (Ardelia et al., 2022) Capital expenditure has the purpose of improving public facilities and infrastructure advice by means of local governments (Pemda) attracting investors by providing adequate infrastructure and facilities in order to create new jobs. Capital expenditure can be in the form of buildings, equipment or machinery, irrigation, networks, roads, land, and other fixed assets according to Permendagri No. 13 of 2016. According to (Ardelia et al., 2022; Digdowiseiso et al., 2022) It is shown that capital expenditure is measured using expenditure of funds by the local government. While in research (Maulina et al., 2021) Capital Expenditure is measured based on the realization of capital expenditure of districts / cities in a provincial area.

2.5 Balancing Fund

Based on Law No. 33 of 2004 paragraph 19 article 1, the Balancing Fund is finance derived from state budget revenues given to each region to assist its regional economy in the decentralization implementation plan. With the Balancing Fund, the fiscal gap between the central government and local governments, as well as between other local governments, is expected to decrease as a result of the absence of other neglected regions. In addition, the Balancing Fund Allocation is also expected to increase tax absorption in a region in order to find regional trade opportunities as a result of increasing the PAD and financial performance of the regional government as written in Laws and Regulations N0. 55 Year 2005 on Balancing Fund. The equalization fund is one of the elements that form the income of a region that will make one of the many measurements of the quality of local government independence, both in the central government and other regional governments (Maulina et al., 2021). The distribution of balanced funds that are not comprehensive, can result in the dependence of local governments on the central government, which is actually intended only as a stimulus to increase PAD resources (Puspita Ayu, 2018). According to (Ardelia et al., 2022; Wahyudin & Hastuti, 2020) The Balancing Fund is useful to help regions fund community needs and regional development and eliminate funding source gaps between central and local governments. According to (Andaresta et al., 2021; Ardelia et al., 2022) The Balancing Fund is useful

for the community to provide improved welfare. While according to (Maulina et al., 2021) The Balancing Fund has a function as an additional source of funds for a local government in conducting its economy and local government. According to the 2004 Law No. 33, there are 3 balancing funds, namely: Special Allocation Fund (DAK), Profit Sharing Fund (DBH), and General Allocation Fund (DAU). This research is in line with research (Digdowiseiso et al., 2022) which shows that the equalization fund can be measured using DBH, DAU, and DAK. While according to (Thalib, 2019) The Balancing Fund can be calculated by the amount of the comparison of the realization of the existing balance fund in the previous period's regional income and is also calculated using the realization of the balance fund which is simplified from the unit value of currency to the percentage unit value by proxiiing using logarithms.

2.6 Hypothesis Development

2.6.1 The Effect of Local Original Revenue on Local Government Financial Performance

By (Jensen & Meckling, 1976) that agency theory describes the contiguous relationship between principal and agent, namely: The principal is the party who has the right to determine a conclusion so that the company in the future also provides obligations to other parties (agents). Based on research (Digdowiseiso et al., 2022) PAD is also known as an important source of income opportunities in order to develop an area. The chances of success of PAD can be seen if the higher the participation of a region resulting from the opportunities that exist in the region itself gets, it will cause an area to experience an increase in income. Therefore, local governments can be entrusted to carry out their duties for the needs of the population, in line with the connection between PAD and agency theory, local governments are financial management agents derived from residents who are principals to increase activities that can help the government to achieve its company targets (Ardelia et al., 2022). In research (Fajar Nugroho, 2012) explained that the increase in revenue from PAD can increase the independence of local governments as a result of affecting the financial performance of local governments. While according to (Saputra et al., 2014) said that the government can maximize PAD based on regional levies and regional taxes and ultimately can improve the development of local government financial performance. With The manager of a region gets a large PAD, so the government will not want to rely on the budget from the APBD because of the lack of independence to finance all its implementation activities which causes it to raise its financial standards and increase the financial performance of local governments. According to (Sukma et al., 2021) stated that PAD has an effect on the performance of local government officials. This situation agrees with the research (Mulyani & Wibowo, 2017) which states that PAD has a positive effect on regional Financial Performance. Based on the conclusions of the explanation above, this research hypothesis can be known as follows: **H1: Local Original Revenue has a positive effect on the financial performance of local governments.**

2.6.2 The Effect of Capital Expenditure on Local Government Financial Performance.

Based on research (Jensen & Meckling, 1976) Agency theory is a contextual relationship between agent and principal. Capital expenditure is obliged to carry out the mission of maintaining fixed assets that are relied on by the government as agents. Capital Expenditure is the cost output to obtain fixed assets and other wealth that has a useful life of more than 1 year (Mustafa et al., 2009). With the higher capital expenditure will cause higher economic productivity so that regional financial performance will be better or The

more development carried out will increase the financial performance of local governments. Proper use of capital expenditure will open up greater opportunities in order to increase regional revenue sources which ends in improved regional financial performance (Maulina et al., 2021). This situation can be refers to the increase in public infrastructure, which in its period can create the best financial performance. Capital expenditure that spends the budget is getting higher for development whose useful value will result in increased regional income which will make a region's finances better due to the increase in financial performance of the local government. Spending issued by local governments will provide facilities whose benefits can be felt either indirectly or directly felt by the community such as infrastructure development and facilities and infrastructure needed in an area (Ardelia et al., 2022). Capital Expenditure has an influence if the funds allocated are used as well as possible to add wealth as a result of which it can increase the financial performance of local governments. From research (Fajar Nugroho, 2012) The actual opinion on the growth of regional performance of capital expenditure has a significant negative effect. This agrees with research (Wahyudin & Hastuti, 2020) which suggests that the performance of capital expenditure has a partial negative influence and this is also supported by (Anggreni & Sri Artini, 2018) who argue that the financial performance of the capital expenditure region has a negative effect. Based on the results of the above explanation, this research hypothesis can be concluded as follows: **H2: Capital Expenditure negatively affects Local Government Financial Performance.**

2.6.3 The Effect of the Balancing Fund on Local Government Financial Performance

A balanced fund is a fund centered on state budget revenues given to a region (autonomous) to finance autonomous needs in order to implement Decentralization. This is because decentralization requires a balance between central and local governments. Related to agency theory, local governments are required to be obliged by these authorities to carry out good financial management in order to promote the provision of maximum and equal public infrastructure. In this situation, the active agent is the local government. Meanwhile, those who are active as principals are the central government. As one of the sources of income, the equalization fund plays a difficult role in implementing regional financial management. A larger balancing fund will result in higher regional financial resources and boost regional financial performance. Explain whether autonomous has natural resources or not, autonomous with large or small levels of trade activity and the obligation of local governments to meet the level of infrastructure in each region (Maulina et al., 2021). The relationship between the Balancing Fund and agency theory is that regions account for budget realization to the central government which results in The Balancing Fund affects the financial performance that will arise if the balanced fund is higher will result in tighter supervision from the central government which causes better financial performance of local governments. This situation agrees with the research (Mulyani & Wibowo, 2017), (Simamora & Budiwitjaksono, 2022) and (Ardelia et al., 2022) which states that the Balancing Fund has a significant effect on the financial performance of local governments. Based on the results of the above explanation, this research hypothesis can be concluded as follows: **H3: The Balancing Fund has a negative effect on the financial performance of local governments.**

3. Methods

This research uses a type of quantitative research which is a research method that examines a number of samples and populations in a wide scope to measure predetermined

hypotheses. The population in this study is Districts / Cities in Lampung Province with a sample of 15 Regencies / Cities in Lampung Province, and the criteria used as a reference to determine the sample are the Realization of the Regional Budget in the 2020 – 2022 fiscal year. The data used in this research is secondary data.

3.1 Definition of Variable Measurement

3.1.1 Financial Performance

Dependent variables are variables that have an impact or become the end, because there are independent variables or no independent variables. Related variables in this study are Financial Performance. Financial performance can be used as a measurement in measuring the government's potential for financial dependence/independence in order to run its local government (Anggreni & Sri Artini, 2018). Regional financial dependence is the expertise of a region in funding services, government activities, development for residents who have paid levies and taxes as the desired income center in an area (Praza, 2016; Putri & Rahayu, 2019).

$$\text{Independence} = \frac{\text{Local Original Income (PAD)}}{\text{Regional Revenue}} \times 100\%$$

3.1.2 Local Revenue

PAD is a region-centered revenue, which is based on applicable laws and regulations. PAD can be sourced from regional levies, revenue from inaugurated profits, and Regional Taxes (Anggreni & Sri Artini, 2018). PAD is calculated using:

$$\text{PAD} = \text{Regional Levy} + \text{Regional Tax} + \text{Management of Regional Assets Separated} + \text{Official Miscellaneous PAD}$$

3.1.3 Capital Expenditure

Capital expenditure is the output in order to obtain useful fixed assets for more than 1 accounting year, and exceeds the minimum capacity of capitalization of fixed assets or other assets determined by the local government (Anggreni & Sri Artini, 2018). Capital expenditure is calculated using:

$$\text{Capital Expenditure} = \text{Building \& Building Expenditure} + \text{Land Expenditure} + \text{Road, Network \& Irrigation Expenditure} + \text{Equipment and Machinery Expenditure} + \text{Other Fixed Asset Expenditure.}$$

3.1.4 Balancing Fund

The Balancing Fund aims to create financial revenue alignment between the central government and local governments. Balancing funds include: DAK, DAU, and DBH (Anggreni & Sri Artini, 2018). The Balance Fund is calculated using:

$$\text{Balancing Fund} = \text{DAK} + \text{DAU} + \text{DBH}$$

3.2 Analysis Methods

This research uses multiple linear regression analysis techniques. In the study, multiple linear regression analysis was used to determine the effect of PAD, Capital Expenditure, and Balancing Fund on the Financial Performance of the District/City Government in Lampung. Based on this, a formula can be formulated

Multiple linear regression equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Explanation:

- Y = Dependent Variable
- a = Intercept
- $\beta_1, \beta_2, \beta_3$ = Independent Variable Regression Coefficient
- X1 = PAD
- X2 = Capital Expenditure
- X3 = Balancing Fund
- e = Residual Value

4. Results and Discussion

4.1 Descriptive Statistics Analysis

Table 1. Analysis of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PAD	45	27.81 M	645.96 M	149.61 M	140.56 M
Capital Expenditure	45	86.89 M	424.75 M	199.59 M	85.68 M
Balancing Fund	45	551.54 M	1,871.83 M	974.08 M	354.50 M
Financial Performance	45	0,03	0,30	0,0993	0,07288
Valid N (listwise)	45				

Source : SPSS Data Processing Version 23

Based on Table 1. Descriptive Statistical Analysis in this study can be shown that the highest local original income (PAD) was achieved by Bandar Lampung City in 2022 of Rp. 645.96 M. Bandar Lampung City received a high PAD because the region manages the economy optimistically and can process wealth well such as increasing regional taxes and BUMD for regional revenue services and processing. The lowest PAD was obtained by West Coast Regency of Rp. 27.81 M. This is because the region has not been able to maximize regional revenues optimally such as the lack of optimizing regional levies and lack of adequate human resources and lack of funds for local government capital. Based on the data in this study, an average PAD of Rp. 149.61 M was obtained. The average result of the PAD shows that the average PAD is relatively small compared to the PAD in Bandar Lampung City. Looking closer to the average value at the minimum value compared to the maximum value, the average PAD is relatively small.

The highest capital expenditure was achieved by Bandar Lampung City of Rp. 424.75 M. This is because Bandar Lampung has a large area as an asset and a large amount of infrastructure and buildings so that the amount of land expenditure, building and building expenditure and the amount of road expenditure. The lowest capital expenditure is found in North Lampung Regency of Rp. 86.89 M. North Lampung Regency receives low capital expenditure due to lack of economic productivity because most of its people contribute to agriculture, forestry, and fisheries so that the lack of new jobs causes a lack of local original income and small spending on roads, irrigation and networks. Based on data from the study, the average capital expenditure was Rp.199.59 M. The average Capital Expenditure is relatively small because it is closer to the minimum value of Capital Expenditure in North Lampung Regency compared to the maximum value.

The highest Balance Fund was obtained by Central Lampung Regency of Rp. 1,871.83M. This is due to the high fiscal gap that causes the region to lag behind other regions which causes the central government to provide a much larger equalization fund

than other regions so that the region is not left behind and also the lack of local original income and the amount of revenue from DBH, DAK, and DAU. Meanwhile, Metro City received the lowest equalization fund of Rp. 551.54 billion because the needs in the area were fulfilled and well organized such as the existence of good health and education services and good infrastructure so that DAK and DAU revenues were much smaller than other regions. Based on the data in the study, an average balance fund of Rp. 974.08 M was obtained. The average result of the Balancing Fund shows that the average Balancing Fund is relatively large because it is closer to the maximum value in Central Lampung Regency compared to the minimum value.

4.2 Hypothesis Testing

Table 2. Hypothesis Testing Results

Coefficients ^a						
Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,111	0,012		9,481	0,000
	PAD	5,973E-13	0,000	1,152	17,374	0,000
	Capital Expenditure	-1.726E-13	0,000	-0,203	-2,697	0,010
	Balancing Fund	-6,786E-14	0,000	-0,330	-4,762	0,000

Source : SPSS Data Processing Version 23

In table 8, it can be implied that the value of t-count X1 is $17.375 > t\text{-table} = 2.01954$. This shows that PAD has a significant positive effect on the Financial Performance of Local Government (Y). It can be concluded, the higher the Original Revenue of an area will cause the Financial Performance achieved by the Local Government to also increase. With the large amount of PAD, it will cause an increase in the independence of local governments in implementing their economies.

The value of t-calculate capital expenditure (X2) is $-2.697 < t\text{-table} = 2.01954$. This shows that Capital Expenditure (X2) has a negative and significant effect on the Financial Performance of Local Government (Y). It can be known, lower capital expenditure will result in low Financial Performance achieved. With so much Capital Expenditure in a local government, it will result in an increase in the standard of living of the community and in improving public facilities and services as well as the potential of a region which will then create a better Regional Government Financial Performance.

The t-count value of the Balancing Fund (X3) is $-4762 < t\text{-table} = 2.01954$. This shows that the Balancing Fund (X3) has a negative and significant effect on the Financial Performance of Local Governments (Y). It can be concluded that a higher Balancing Fund will result in lower Financial Performance.

4.3 Discussion

- 1) The Effect of Local Original Revenue on Local Government Financial Performance
 The calculation of the independence ratio in this research shows that PAD has a significant positive effect on the financial performance of the local government. This situation is found in Table 8. The results of the t-test tell that t-calculate 17.375 with a significant value of 0.000 is less than 0.05 with a coefficient value for the Regional Original Income variable of 5,973E-13. PAD is an income from a certain area that is taken based on what is stated in the law. The PAD generated in an autonomous has

the ability to increase revenue in meeting its needs and to assess the ability of a region to develop its area independently by increasing local levies and taxes as a result of advancing its financial performance. A good PAD can be implemented by increasing the data collection of local tax levies on taxpayers and processing their regional wealth properly as well as increasing levies. The conclusion of this research agrees with the research (Digdowiseiso et al., 2022) and (Maulina et al., 2021).

- 2) **The Effect of Capital Expenditure on Local Government Financial Performance**
Based on the end of this research, it is shown that Capital Expenditure has a significant negative effect on the financial performance of the local government. This can be seen from the table. 8 that the t-calculated value is -2.697 and the significant level of 0.010 is less than 0.05 with the coefficient value for the Capital Expenditure variable of -1.726E-13. Capital expenditure is a long-term investment for the region in providing infrastructure facilities to residents whose usefulness can be felt directly or indirectly by the residents of the area. Capital Expenditure issued by the Regional Government is regional capital in an effort to provide infrastructure advice to residents in the form of roads, irrigation and building construction and others whose uses either indirectly or directly can be used by regional residents. Through good budget management, the result can create an increase in assets whose useful life is more than one year which will advance the financial performance of the region. Conversely, if the management of the Capital Expenditure budget is not good, it will cause community productivity to decrease and reduce regional financial performance. To be able to manage capital expenditure well, local governments must develop a balanja mechanism in such a way that the balanja process can be carried out in a controlled manner. Capital Expenditure can be in the form of expenditure for road infrastructure development, building construction, irrigation and others.
- 3) **The Effect of the Balancing Fund on Local Government Financial Performance**
This research shows that the balancing fund has a significant negative effect on the financial performance of local governments. It can be seen in table 8 that the t-count value is -4.762 and a significant value of 0.0000 less than 0.05 with a Balanced Fund coefficient value of -6.786E-14. The Balancing Fund is money centered on the state budget given to autonomously to finance their regional needs. Finds A poor balance fund can increase fiscal gaps between local and other local governments as well as between the central government. The equalization fund is used to address horizontal fiscal gaps that collect revenues that depend on regional conditions. The Balancing Fund is one of the constituent elements of regional revenue as a measure of regional dependence on the central government, so with the higher the Balancing Fund, the less regional independence will be which will cause a decrease in regional financial performance. The balancing fund is intended as an additional budget to finance regional development in running the regional economy. The government needs to manage its local revenues to fund its own economic needs so as to reduce dependence on the equalization fund. The Balancing Fund can be DAK, DAU, and DBH. This situation agrees by research (Digdowiseiso et al., 2022).

5. Conclusion

Based on this research on the Strategy to improve the financial performance of local governments, it can be concluded that to increase the financial performance of local governments, it can be by optimizing PAD in a region, increasing the management function of Capital Expenditure for the needs needed by the region, and with good

regional financial operations, causing less Balancing Fund received by the local government so that the independence of the region becomes high which will result in improved financial performance of the area.

In this study, there are limitations in the form of the following: (1) In this study, the data used are secondary data from the Directorate General of Financial Balance (DGT) and the Central Statistics Agency (BPS) with an interval from 2020 – 2022. (2) This study only used the independence ratio. (3) This research only uses three variables, namely PAD, Capital Expenditure, and Balancing Fund while other factors that also affect the Financial Performance of Local Governments are not listed in this study.

For further researchers are expected to: (1) Increase the amount of time used longer. (2) Using empirical study data. (3) Add other ratios such as effectiveness, efficiency and growth to better measure financial performance. (4) Add other variables to the study such as the size of local government, economic growth and other variables that can affect the financial performance of local governments.

References

- Andaresta, H., Aswar, K., & Ermawati. (2021). The Effect of Local Original Revenue, Balancing Fund, Local Government Size, and Poverty Rate on Local Government Financial Performance. *Proceedings of the National Research Conference on Economics, Management, and Accounting*, 2, 1614–1624.
- Anggraeni, A., & Yogyakarta, U. M. (2016). The Effect of Capital Expenditure on Financial Performance with Local Original Income as an Intervening Variable. *Journal of Accounting Faculty of Economics and Business*, 1–18.
- Anggreni, N. K. A., & Sri Artini, L. G. (2018). The effect of Pad, Balancing Fund and Capital Expenditure on the Regional Financial Performance of Badung Regency, Bali Province. *E-Journal of Management Udayana University*, 8(3), 1315.
- Ardelia, I. N., Wulandari, H. K., Ernitawati, Y., & Dumadi, D. (2022). The effect of local original revenue, capital expenditure and balancing funds on the financial performance of local governments Empirical study of districts and cities in the former Pekalongan Residency for the 2016-2020 period. *Journal of Accounting Applications*, 7(1), 60–80.
- Armaja, Ibrahim, R., & Aliamin. (2017). The Effect of Regional Wealth, Balancing Fund and Regional Expenditure on Financial Performance. *Journal of Economic Perspectives Darussalam*, 3(2), 168–181.
- Dalil, A., Sukidin, S., & Hartanto, W. (2020). The effect of local original revenue, general allocation funds, and special allocation funds on the allocation of capital expenditure budgets in districts and cities in East Java Province in 2013-2018. *Journal of Economic Education: Scientific Journal of Education, Economics and Social Sciences*, 14(1), 178.
- Digdowiseiso, K., Subiyanto, B., & Cahyanto, R. D. (2022). The effect of local original revenue, equalization fund and capital expenditure on the financial performance of local governments. *Fair Value Scientific Journal of Accounting and Finance*, 4(6), 2572–2580.
- Fajar Nugroho. (2012). The effect of capital expenditure on the growth of regional financial performance with local original income as an intervening variable. *Economy*, 1, 2.
- Hamdani, M. (2016). *Semnas fekon 2016. Good Corporate Governance (GCG) in Agency Theory Perspective*, 2000, 50–57.

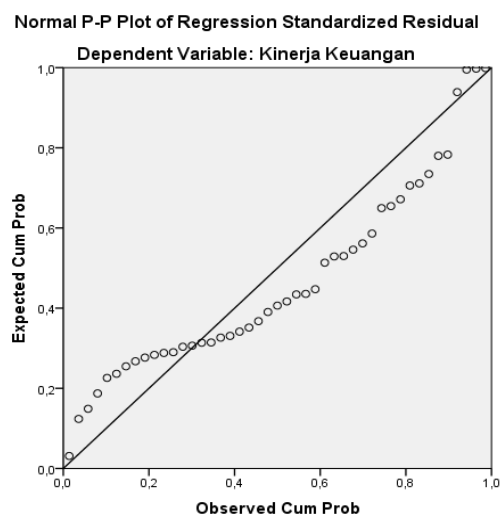
- Indiyanti, N. M. D., & Rahyuda, H. (2018). The Effect of Regional Financial Performance on Capital Expenditure Allocation in Bali Province. *E-Journal of Management Udayana University*, 7(9), 4713.
- Jensen, M. C., & Meckling, W. H. (1976). Also published in *Foundations of Organizational Strategy*. *Journal of Financial Economics*, 4, 305–360.
- Jinji, I., Tywoniak, S., Rosqvist, T., Mardiasmo, D., & Kivits, R. (2008). Engineering Asset Management-A Foundation for Sustainable Development. *Proceedings of the 3rd World Congress on Engineering Asset Management and Intelligent Maintenance Systems*, 1553–1567.
- Mardiasmo. (2002). Elaboration of Public Sector Accounting Reform: A Critical Study of Efforts to Actualize the Need for Local Government Financial Accounting Systems. *Indonesian Journal of Accounting & Auditing*, 6(1), 63–82.
- Maulina, A., Alkamal, M., & Fahira, N. S. (2021). The effect of local original revenue, equalization fund, capital expenditure, and local government size on local government financial performance. *Journal of Information System, Applied, Management, Accounting and Research*, 5(2), 390.
- Mulyani, S., & Wibowo, H. (2017). The effect of capital expenditure, local government size, intergovernmental revenue and local original revenue on financial performance (districts / cities in Central Java Province, 2012-2015). *Compartment: Scientific Journal of Accounting*, 15(1), 57–66.
- Mustafa, B., Halim, A., Economics, F., & Yogyakarta, U. G. M. (2009). Performance Measurement of the Regional Revenue Office of West Kalimantan Province. 7, 792–802.
- Prastiwi, N. D., & Aji, A. W. (2020). The effect of local original revenue, balancing funds, privilege funds and capital expenditures on the financial performance of local governments. *Business Studies Widya Wiwaha College of Economics*, 28(1), 89–105.
- Praza, E. I. (2016). Analysis of the Effect of Financial Performance on Capital Expenditure Allocation in Jambi Province. *Journal of Regional Financing and Development Perspectives*, 4(1), 25–36.
- Puspita Ayu, P. (2018). Analysis of PAD and Balancing Fund on Financial Performance of Local Governments in West Java. *Jae (Journal of Accounting and Economics)*, 3(1), 80.
- Putri, R. S., & Rahayu, S. (2019). The Effect of Local Government Performance on Capital Expenditure in West Java Province (Empirical Study on Cities/Regencies in West Java Province in 2014-2017). *Audit and Accounting Information Systems*, 3(2), 256–268.
- Saputra, D. S., Darwanis, & Abdullah, S. (2014). The Effect of Transparency, Accountability and Organizational Commitment on the Performance of the Regional Apparatus Work Unit (Study on the Regional Government of South Aceh District). *Journal of Access*, 3(2), 76–84.
- Simamora, W. C., & Budiwitjaksono, G. S. (2022). Analysis of Regional Original Revenue (PAD), General Allocation Fund and Capital Expenditure on Local Government Financial Performance in Districts/Municipalities in North Sumatra Province in 2018-2020. *Economics: Journal of Economics and Business*, 6(2), 410.
- Sukma, D., Putri, A. M., & Ahyaruddin, M. (2021). Analysis of factors affecting financial performance in district/city governments throughout Sumatra in 2015-

2018. IAKP Journal: Journal of Financial & Taxation Accounting Innovation, 2(1), 36.
- Suprpto, B. (2017). the Effect of Fit Between Natural Environmental Approach and Business Strategy on Performance. *Performance*, 10(2), 103–115.
- Thalib, F. (2019). The Effect of PAD, Balancing Fund, and Capital Expenditure on Local Government Financial Performance in Districts in East Java for the 2013-2017 period. *STIE Perbanas Surabaya*, 1–18.
- Wahyudin, & Hastuti. (2020). The Influence Of Original Local Government Revenue, Fiscal Balance Transfer And Capital Expenditure On The Financial Performance Of Local Government Of Regencies And Cities In West Java Province. *Indonesian Accounting Research Journal*, 1(1), 86–97.
- Zuhri, M., & Soleh, A. (2016). Financial Performance Analysis of Kaur District Local Government. *EKOMBIS REVIEW: Scientific Journal of Economics and Business*, 4(2), 187–195.

Attachment

Classical Assumption Test

Table 2. Normality Test



Based on research data table 2. Normality Test, it can be known that the residual value follows the diagonal line or is close to the diagonal line, then the study can be interpreted as normally distributed.

Table 3. Autocorrelation Test

Model Summaryb

Type	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	.944a	.891	.883	.02494	1,064

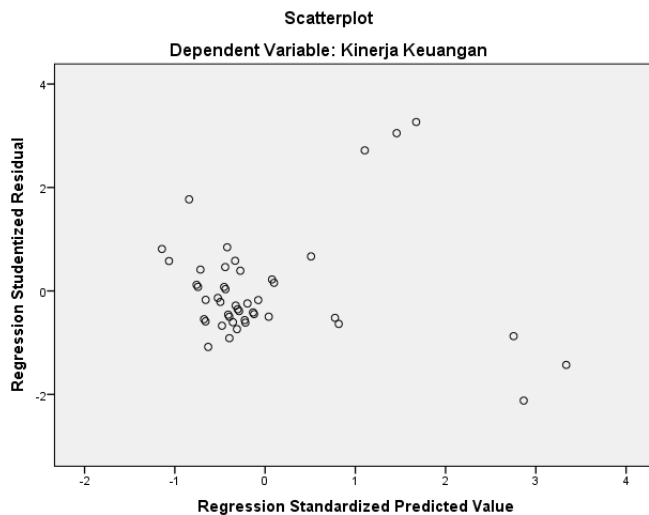
The autocorrelation test can be seen in the summary model table which can be seen if the DW value is between -2 and 2 so it is free from autocorrelation. From table 3. Autocorrelation test, DW value obtained at 1.064. From that, the DW table obtained a DU value of 1.6662 and DL of 1.3832. Thus, it can be concluded that the DW value exists between -2 and 2. It can be concluded that this research is free from autocorrelation.

Table 4. Multicollinearity Test

Type	Coefficient	
	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
PAD	0,605	1,652
Capital Expenditure	0,470	2,129
Balancing Fund	0,554	1,806

Based on table 4. Multicollinearity Test, it can be concluded that the value of Tolerance PAD (X1) is $0.605 > 0.01$, Capital Expenditure (X2) is $0.470 > 0.01$, and Balancing Fund (X3) is $0.554 > 0.01$. Meanwhile, the value of VIF PAD (X1) was $1,652 < 10$, Capital Expenditure (X2) was $2,129 < 10$, and Balancing Fund (X3) was $1,806 < 10$. Thus, it is concluded that this research is free from multicollinearity.

Table 5. Heterokedasticity Test



From table 5. Heterokedasticity test, showing that the residual value spreads down and up or randomly and is around the number 0, so this study is free from heterokedasticity.

Coefficient Determination

Model Summary ^b					
Type	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	0,944a	0,891	0,883	0,02494	1,064

Based on table 3 of the summary model, an R-square value of 0.891 can be obtained which can mean that PAD (X1), Capital Expenditure (X2), and Balancing Fund (X3) are able to affect the financial performance of local governments (Y) by 89%. Meanwhile, 11% were influenced by other variables that were not contained in this study.

Model Testing (Test F)

ANOVA ^a					
Type	Sum of Squares	Df	Mean Square	F	Sig.

1	Regressio n	0,208	3	,069	111,58 8	0.000b
	Residue	0,025	41	,001		
	Total	0,234	44			

Based on table 7. Test F, it can be found that the F-count value is 111.588 and the Sig value is $0.000 < 0.05$. With this, it can be explained together that PAD (X1), Capital Expenditure (X2), and Balancing Fund (X3) affect the financial performance of the local government.