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INFLUENCE OF REGIONAL ORIGINAL REVENUE AND BALANCING FUNDS ON THE FINANCIAL PERFORMANCE OF THE REGIONAL GOVERNMENT OF JOMBANG DISTRICT IN 2018-2022

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Abstract

Regional government financial performance measures regional independence in managing potential sources of regional original income (PAD) as the primary value for financing regional expenditure so that it does not depend on central government balancing funds. This research aims to test and determine the influence of (PAD) and balancing funds on the financial performance of the Jombang Regency regional government. Quantitative methods are used in this type of research. The sample for this research is five years from the Jombang Regency regional government budget realization report for 2018-2022. The non-probability sampling method was used in this research, and saturated sampling techniques were utilized. The classical assumption test, multiple linear regression analysis, and hypothesis testing were used as data analysis using SPSS 26 tools. The results of this research were that PAD and balancing funds had a positive and significant effect on the financial performance of the Jombang Regency regional government.

Keywords: Regional Original Income (PAD), Balancing Funds, Regional Government Financial Performance.

INTRODUCTION

Regional governments must independently manage their government by increasing regional revenue sources to benefit the community and community services(Oktaviani & Rahayu, 2020). Regional financial independence is regional governments' ability to finance government operational activities, community services, and development. Based on the amount of original regional income (from now on referred to as PAD) each Regency/City government obtains, it can be seen. PAD is the primary value in measuring regional financial independence(Nurkhayati, 2020). So, regional governments must encourage increasing PAD sources to meet regional needs and not depend on central government assistance. An increase in PAD can indicate that regional financial performance management is being carried out well by the region.(Verawaty et al., 2020). Apart from this, financial performance is an indicator that confirms a region's ability to implement financial implementation regulations well(Fernandes & Hilwani, 2021). The hope is that the regional government, in this case, can maximize regional financial revenue sources in order to meet development and expenditure needs by utilizing PAD. Generally, the achievement of regional autonomy can be reviewed through PAD, but this is lacking, so regional governments tend to rely on transfers of central funds, namely balancing funds.(Heryanti et al., 2019).

Jombang Regency is one of the districts in East Java province that needs to measure the financial performance of its regional government to see the financial independence of the Jombang district regional government in financing the implementation of regional autonomy based on data from the Jombang Regency Regional Government Budget Realization Report for the 2018-2022 period.

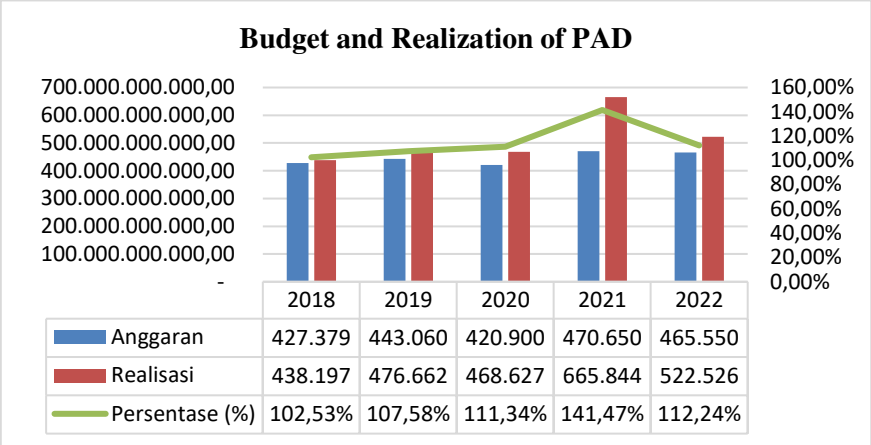

Figure 1. PAD graph for Jombang Regency 2018-2022

Source: Jombang Regency Regional Government Budget Realization Report for 2018-2022

Figure 1. explains that the Jombang Regency regional government can encourage an increase in PAD through budget provisions. This means that the Jombang Regency regional government can produce PAD that exceeds the budget. However, the increase in PAD was only sometimes stable from 2018 to 2022 because there was a decline in 2020 and 2022.

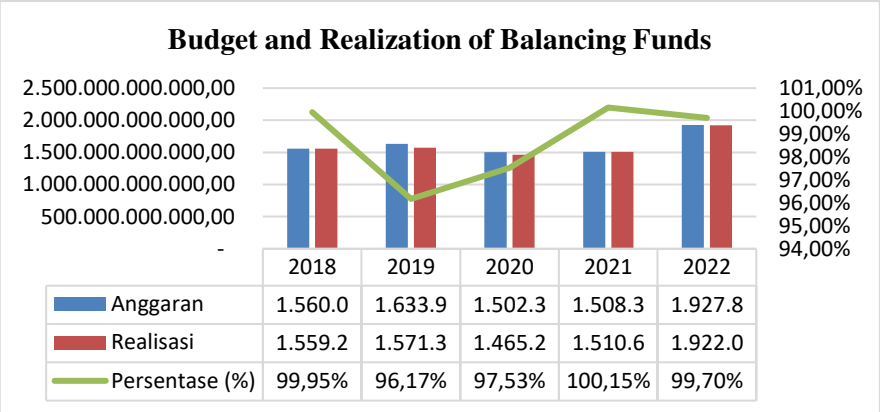

Figure 2. Jombang Regency Balancing Fund Graph for 2018-2022

Source: Jombang Regency Regional Government Budget Realization Report for 2018-2022

Based on figure 2, it explains that the balancing fund budget has increased in 2018, 2019, 2021, 2022. However, it has decreased in 2020. Moreover, the regional government realized a balance to balance9 2020 and 2022 under budget provisions. However, in 2021, the actual budget received by the regional government exceeds the budget provisions. The Jombang district regional government can reduce the contribution to the balancing fund in 2018, 2019, 2020, and 2022. However, the contribution to the balancing fund in 2021 must be increased compared to the budget. However, this could result in the realization that balancing funds in 2020 will decrease but will decrease the budget compared to the previous year.

Table 1. Financial Performance Independence Ratio of Jombang Regency Regional Government

Year	Realization PAD (Rp)	Transfer Income (Rp)	Independence Ratio

2018	438,197,175,438.60	1,559,258,761,514.00	28.10%
2019	476,662,933,476.46	1,571,391,531,751.00	30.33%
2020	468,627,918,703.89	1,465,246,900,235.00	31.98%
2021	665,844,012,375.24	1,510,656,256,873.00	44.08%
2022	522,526,189,811.56	1,922,042,890,444.10	27.19%
	2,571,858,229,805.75	**8,028,596,340,817.10**	**32.03%**

Source: Jombang Regency Budget Realization Report for 2018-2020

Based on indicators measuring the financial performance of the Jombang Regency regional government, Table 1. The Financial Performance Independence Ratio of the Jombang Regency Regional Government explains regional financial problems based on the Jombang Regency LRA for 2018-2022. Some of the regional financial problems faced by Jombang Regency consist of (1) Regional governments are still highly dependent on the central government, which can be seen based on a large amount of transfer income from the center, (2) the capability of regional governments to manage potential sources of income is still shallow. Locally, this can be viewed based on the relatively small PAD compared to transfer income. (3) The financial independence of the Jombang Regency Government still needs to be higher, namely less than 50%.

The Influence of Original Regional Income (PAD) on Regional Government Financial Performance

PAD is regional revenue that is obtained and collected based on statutory regulations. The sources of this income are the results of separate regional wealth management, regional taxes, regional levies, and other legitimate PADs. These sources influence regional development and the ability to extract PAD(Suwarsa & Sawal, 2019).

According to Heryanti et al. (2019), the results obtained in their research show that PAD has a significant favorable influence on financial performance; this means that increasing PAD also causes regional financial performance to increase. Apart from that, PAD's impact on the financial performance of regional governments in North Sumatra Province has a positive influence(Sari et al., 2020).

H_1: PAD has a positive effect on Regional Government Financial Performance

The Effect of Balancing Funds on Regional Government Financial Performance

In summary, the results of central government policy in the context of financial harmony between regional and central governments in the decentralization aspect are expressed as balancing funds. The source of these funds is the APBN allocation to (autonomous) regions in order to finance regional interests for decentralization(Ramadani & Muslimin, 2022).

According to Andaresta et al. (2021) in their research, the results showed that balancing funds on the financial performance of city or district governments in Sumatra Province had a negative influence. This condition indicates that the increase in the amount of balancing funds causes the financial independence of regional governments to decrease because they tend to remain dependent on funds from the center. This presentation aligns with research from Saleh (2020), which shows that balancing

funds on the financial performance of the Bogor Regency regional government has a significant and negative influence, which means that increasing balancing funds can cause regional financial performance to decline.

H_2: Balancing Funds Hurt Regional Government Financial Performance.

METHOD

This type of research uses quantitative methods and secondary data from websites. It is structured research emphasizing objective phenomena measured by numbers and statistical processing(Sugiyono, 2022:16). Financial Performance of the Regional Government of Jombang Regency is the object of this research. The required data are PAD and Balancing Funds in the Jombang Regency Budget Realization Report for 2018-2022. This data was obtained from jomangkab.bps.go.id and the Jombang Regency Regional Government website, namely jomangkab.go.id. There are two independent variables and one dependent variable used in this research, consisting of:

Independent Variable

PAD (X_1) measurement here is through the formulation below:

$$\text{PAD} = \frac{\text{Regional Original Income (PAD)}}{\text{Total Regional Income}} \text{X } 100 \%$$

Source: Pasaribu (2020)

The measurement of balancing funds (X_2) here is through the formulation below:

$$\text{DP} = \frac{\text{Balancing Funed}}{\text{Total Regional Income}} \text{X } 100 \%$$

Source: Pasaribu (2020)

Dependent Variable

Measuring regional government financial performance (Y) uses the regional financial independence ratio calculated using the formulation below:

$$\text{RKKD} = \frac{\text{Locally Generated Revenue (PAD)}}{\text{Total Transfer Income}} \text{X } 100 \%$$

Source: Pasaribu (2020)

All Jombang Regency Regional Government Budget Realization Reports for 2018-2022 were used as the population for this research. The nonprobability sampling method was used to take samples for this research. This research has samples of all PAD and Balancing Fund data every year from the 2018-2022 period in the Jombang Regency Regional Government Budget Realization Report. This research data collection technique uses documentation and literature study techniques. Apart from that, the multiple linear regression equation model here is:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$$

Where:

α = Constant

Y = Regional Government Financial Performance

ε = Standard Error

β1, β2 = Regression Coefficient of each X

X1 = Regional Original Income (PAD)

X2 = Balancing Fund

RESULTS AND DISCUSSION

Descriptive statistics

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
PAD (%)	5	17.44	23.09	19.2540	2.27321
Balancing Fund (%)	5	52.39	71.51	60.4940	7.07130
Regional Government Financial Performance (%)	5	27.19	44.08	32.3360	6.82820
Valid N (listwise)	5				

Source: SPSS output

Referring to this data, it is known that the total sample for this study was five samples, which explains:

The PAD variable (X_1) has a minimum value of 17.44% which occurred in 2018. The maximum value was 23.09%, which occurred in 2021. The average (mean) of local original income (PAD) was 19.25 %, with a standard deviation of 2.27%. The balancing fund variable (X_2) has a minimum value of 52.39%; in 202will, the maximum value is 71.51%, which occurs in 2022. The resulting mean is 60.49%, and the standard deviation is 7.07%. The regional government financial performance variable (Y) has a minimum value of 27.19% in 2022. The maximum value is 44.08%, which will occur in 2021. The average (mean) of regional government financial performance is 32, 33% with a standard deviation of 6.83%.

Normality test

Table 3. Normality Test Results ***One-Sample Kolmogorov-Smirnov Test***

		Unstandardized Residuals
N		5
Normal Parameters, b	Std. Deviation	,11506805
	Mean	,0000000
Most Extreme Differences	Negative	-,182
	Positive	,177
	Absolute	,182
Statistical Tests		,182
Asymp. Sig. (2-tailed)		,200c,d

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Source: SPSS output

Based on this explanation, it is known that the significance value is 0.200. Overall, the Asymptotic Sig (2-tailed) significance test is > 0.05. Thus, it can be assumed that the resulting distribution is normal.

Classic assumption test

1. Multicollinearity Test

Table 4. Multicollinearity Test Results

Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	PAD (%)	,820	1,219
	Balancing Fund (%)	,820	1,219

a. Dependent Variable: Regional Government Financial Performance (%)

Source: SPSS output

Referring to this data, the tolerance obtained is 0.820 > 0.10 and has a VIF of 1.219 < 10. Thus, it states that there is no multicollinearity.

2. Heteroscedasticity Test

Table 5. Glejser Test Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,625	,649		,962	,437
	PAD (%)	-,018	,020	-,597	-,913	,458
	Balancing Fund (%)	-,003	,006	-,328	-,501	,666

a. Dependent Variable: Abs_RES
Source: SPSS output

Based on this explanation, the significance of the PAD variable has a value of 0.458 > 0.05, while the significance of balancing funds is 0.666 > 0.05. Thus, it is stated that heteroscedasticity does not arise.

3. Autocorrelation Test

Table 6. Autocorrelation Test Results

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1,000a	1,000	,999	.16273	1,758

a. Predictors: (Constant), Balancing Funds (%), PAD (%)

b. Dependent Variable: Regional Government Financial Performance (%)

Source: SPSS output

Referring to this data, you can see Durbin-Waston with a value of 1.758, indicating no autocorrelation.

Multiple Linear Regression Analysis

Table 7. Results of Multiple Linear Regression Analysis

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23,954	1,293		18,530	,003
	PAD (%)	1,999	,040	,666	50,588	,000
	Balancing Fund (%)	-,498	,013	-,515	-39,179	,001

a. Dependent Variable: Regional Government Financial Performance (%)

Source: SPSS output

Referring to this data, explain that the multiple regression equation is:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$

Y = 23,954 + 1,999 PAD – 0.498 DP

The constant (α) with a value of 23.954 has a positive sign or states that if the value of the independent variable is considered constant, then the dependent variable has a value of 23.954. The PAD variable (X_1) has a regression coefficient with a value of 1.999 with a positive sign, which states that if the PAD level increases by one unit and other independent variables are assumed to be constant, the value of the dependent variable can increase by 1.999. The balancing fund variable (X_2) has a regression coefficient of -0.498 with a negative sign, which indicates that if the level of balancing funds increases by one unit, the other independent variables are assumed to be constant; therefore, it decreases by 0.498 for the value of the dependent variable.

Hypothesis testing

1. Coefficient of Determination Test

Table 8. Coefficient of Determination Test Results

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1,000a	1,000	,999	.16273

a. Predictors: (Constant), Balancing Funds (%), PAD (%)

b. Dependent Variable: Regional Government Financial Performance (%)

Source: SPSS output

A value of 0.999 can be obtained from this data. This means that the independent variable's influence on the dependent variable is 99.9%. Meanwhile, other variables outside this research

influence the remainder (100% - 99.9% = 0.1%). SEE is found to be 0.16273, where if the value is smaller, then the regression model in predicting the dependent variable will also be more precise.

2. F Test (Model Fit Test)

Table 9. F Test Results (Model Fit Test)

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	186,444	2	93,222	3520,300	,000b
	Residual	,053	2	,026		
	Total	186,497	4			

a. Dependent Variable: Regional Government Financial Performance (%)

b. Predictors: (Constant), Balancing Funds (%), PAD (%)

Source: SPSS output

Referring to this data, the calculated f value was 3520.300 with a significance (Sig.) of 0.000 < 0.05. So, simultaneously, PAD and balancing funds influence regional government financial performance.

3. t-test

Table 10. t-test results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23,954	1,293		18,530	,003
	PAD (%)	1,999	,040	,666	50,588	,000
	Balancing Fund (%)	-,498	,013	-,515	-39,179	,001

a. Dependent Variable: Regional Government Financial Performance (%)

Source: SPSS output

Referring to this data, showing the influence of the independent variable on the dependent variable is the first hypothesis, namely, "original regional income (X_1) has a positive effect on the financial performance of the regional government (Y)." The significance of PAD is 0.000 < 0.05. The conclusion that can be drawn is that H1 is accepted, and Ho is rejected. It means that the two variables have a significant influence. The second hypothesis is that "balancing funds (X_2) has a positive effect on regional government financial performance (Y)." The significance of the balancing fund variable is 0.001 < 0.05. So, from this, the conclusion that can be drawn is to accept H_2 and reject Ho. It has a significant influence on these two variables.

The Influence of Original Regional Income (PAD) on Regional Government Financial Performance

The results obtained from the hypothesis test were that PAD on regional government financial performance had a significant positive effect. Regional government financial performance can be

reviewed through high and low PAD. High PAD can impact the financial performance of local governments, where the better and better financial performance of local governments indicates that economic activities have been well managed in a region.

There are similarities in the results of this research with those of Sandi Hasudungan Pasaribu (2020), which shows that PAD significantly influences regional government financial performance.

The Effect of Balancing Funds on Regional Government Financial Performance

The hypothesis test results show that balancing funds has a significant positive effect on regional government financial performance. This means that the balancing funds that regions receive can encourage improvements in regional government financial performance. However, this condition can illustrate a high level of dependence on the central government of a region, thereby reducing regional independence.

There are similarities in the results of carrying out this research with Sandi Hasudungan Pasaribu (2020), namely that balancing funds significantly influences regional government financial performance.

CONCLUSION

From the results of the analysis and discussion through the tests carried out, it can be concluded that PAD has a positive and significant influence on the financial performance of the Regency regional government. Regional government financial performance can be reviewed through high and low PAD. High PAD can impact the financial performance of local governments, where the better and better financial performance of local governments indicates that economic activities have been well managed in a region.

Balancing funds has a positive and significant influence on the financial performance of the Regency regional government. This means that the balancing funds that regions receive can encourage improvements in regional government financial performance. However, this condition can illustrate a high level of dependence on the central government of a region, thereby reducing regional independence.

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