



The Effect of Locally Generated Revenue as an Intervening Variable on the Financial Performance of the Regional Government of South Sumatra Province

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Abstract

Purpose: The purpose of this study was to determine the direct or indirect effect of the Balancing Fund and Capital Expenditure on the Financial Performance of Local Governments through Regional Original Income as an Intervening Variable. The object of this research is the report on the realization of the APBD of 17 districts/Cities in the Province of South Sumatra from 2016-2020.

Design/methodology/approach: The data used is secondary data from the website of the Directorate General of Fiscal Balance of the Republic of Indonesia (www.djpk.depkeu.go.id) in the form of quantitative data with the type of data, namely time series, which is during the period 2016-2020. The research population used is 17 regencies/cities in South Sumatra Province and the sample used is 85 samples. Data analysis techniques in this research are descriptive analysis, classical assumption test, hypothesis testing and path analysis using SPSS for Windows version 26.0 software.

Findings: The results of this study indicate that the Balancing Fund does not directly affect Regional Original Revenue, Directly Capital Expenditure affects Regional Original Income, Directly the Balancing Fund, Capital Expenditure, and Regional Original Income cannot affect Regional Government Financial Performance, Indirectly the Balancing Fund variable and Capital Expenditures affect the Financial Performance of Regional Governments through Regional Original Revenues as Intervening Variables.

Practical implications: This research is expected to be an evaluation material for Local Governments in improving Government Financial Performance.

Originality/value: The conclusion of this study is that indirectly Locally Generated Revenue plays an important role in increasing the effectiveness of local government financial performance. If the Regional Original Revenue gets a large contribution, the level of dependence on the central government will decrease. Government financial performance can be considered effective if the regions do not depend much on the center. Then if the revenue of Regional Original Income is high, the region is able to finance infrastructure development evenly in an effort to improve the welfare of the community.

1. Introduction

The development carried out by the Indonesian government must continue to develop and change for the better, including South Sumatra, because one of the goals of development is to provide welfare and improve the economy. According to Oates (1972), fiscal decentralization can affect economic growth and people's welfare to increase. Meanwhile, according to research by Musgrave (1989), it is explained that decentralization in an area is expected to be able to make the community more prosperous through the management of intergovernmental revenues and costs. Fiscal decentralization has a relationship with agency theory where Michael C. Jensen & William H. Meckling (1976) explained that the commitment between the principal and the agent to carry out a principal's task, which links decision-making power to the agent as the decision-making power. If it is related to government, it is the relationship between the central government and local governments. Local governments have a role in carrying out the tasks assigned by the central government, one of which is managing their government finances independently. The phenomenon that occurs in South Sumatra, some districts have not actually been able to managing their finances independently can be seen from the entry of South Sumatra into the top 10 poorest provinces in the publication of the Central Statistics Agency in Kompas.com, 2021. The problem of poverty or social inequality that occurs certainly does not escape the problem of managing its finances local money. Jumali (2014) revealed that the philosophy of financial management in government is not aimed at the welfare of employees, but the community. Therefore, the financial effectiveness of a region must be clear, namely prioritizing the welfare of the community. Good regional financial management can make the government's financial performance effective, because regional financial management is the essence for assessing the progress of development and government administration.

In order to realize good local government financial performance, a region must be able to recognize the sources of wealth that the region has, so that regional governments can continue to explore sources of regional revenue in supporting all government financial affairs. Regional Original Revenue is an element of the APBD that can be used as a reference to see the good or bad financial performance of the regional government because if the contribution of Regional Original Revenue in a region is large, the funding assistance from the central government will be small, then the level of dependence on the central government will decrease. The target of the existence of transfer funds from the center is useful in reducing inequality between regions and increasing infrastructure development so that the realization of a prosperous society (Oktaviani, 2017). Pratiwi (2018), revealed that the Balancing Fund will be able to influence whether or not the Financial Performance of the Regional Government is good because the more transfers of funds received from the central government will show the level of dependence of the regional government on the central government.

The development of a region is one of the government's efforts in carrying out its administration to create an autonomous region. The development of facilities and infrastructure in an area is a manifestation of the implementation of regional development. The development can run if the planning has been included in the APBD post, especially the Capital Expenditure post. Ayinde et al. (2015) stated that capital expenditure aims to fund programs related to the welfare and interests of the people. Capital Expenditure plays a very significant role in the development process of a region because it will be used to create useful public services. Capital expenditures can provide adequate infrastructure facilities and infrastructure. If the facilities and infrastructure are effective, then indirectly the community can move the wheels of the economy, namely through a number of levies that are required to the community for the facilities and infrastructure they enjoy, both in the form of taxes and levies and so on. Darwanis & Saputra (2014) argue that with large capital expenditures, the productivity of the economy will increase or in other words the financial performance of local governments will be effective.

If the government's financial performance is good, then good governance will be realized. The concept of good governance in Indonesia was first applied in the post-reform era, where the emergence of the concept of good governance was caused by problems arising from demands by the new order government. Based on research by Mardiasmo in 1999 entitled "The Impact of Central and Provincial Government Intervention on Local Government budgetary Management: The Case of Indonesia", good governance is a form of government approach that aims at public sector development.

Thus, this research intends to examine the direct or indirect effect of the Balancing Fund and Capital Expenditure on the Financial Performance of the South Sumatra Provincial Government with Regional Original Income used as the intervening variable.

2. Literature Review and Hypothesis Development

2.1 Good Governance

The notion of good governance first emerged around 1980 in a discussion discussing development by the World Bank. The World Bank states that good governance is a form of reliable and consistent implementation of government management by referring to the principles of democracy, effective markets, prevention of corruption, enforcement of budgetary discipline, and preparation of legal and political frameworks for the growth of private activities. The concept of good governance in Indonesia was first applied in the post-reform era, where the emergence of the concept of good governance was caused by problems arising from demands by the new order government. Based on research by Mardiasmo in 1999 entitled "The Impact of Central and Provincial Government Intervention on Local Government budgetary Management: The Case of Indonesia", good governance is a form of government approach that aims at public sector development.

2.2 Agency Theory

The emergence of agency theory began in 1976 with a study by Michael C. Jensen and William H. Meckling entitled "Company Concepts: Management Behavior, Agency Costs, and Ownership Structure". Michael C. Jensen and William H. Meckling explained that "Agency theory is a commitment between the principal and the agent to carry out a principal's task, which links the decision-making power entrusted to the agent as the decision-making power". This expression means that agency theory is a commitment between the principal (an individual or entity that makes an agreement) and an agent (a person or institution that bridges activities for and on behalf of the principal).

2.3 Fiscal Federalism

The theory of fiscal federalism is an understanding initiated by Hayek in 1945, Oates in 1972 and Musgrave in 1989. The theory of fiscal federalism is an understanding that prioritizes fiscal decentralization as the root of development. Based on the research they conducted, Hayek revealed that decisions made by decentralization would be easier to make if using efficient information because the relationship between the community and local government is close. According to Oates, fiscal decentralization can affect economic growth and people's welfare to increase. Meanwhile, according to Musgrave's research, the theory of fiscal federalism explains decentralization in an area to make the community more prosperous through the management of intergovernmental revenues and costs.

2.4 Regional Revenue and Expenditure Budget (APBD)

APBD is a local government monetary program in the form of revenues and expenditures that intends to create an independent region, where the APBD itself is ratified by the regional government every year.

2.5 Locally Generated Revenue

Locally Generated Revenue is income originating from regional economic activities determined by established rules, where PAD is divided into Regional Taxes, Regional Levies, Separated Regional Assets Management Results, and Other Legitimate Regional Original Income.

2.6 Balancing Funds

Balancing Funds are regional revenues distributed by the central government to fund all regional activities aimed at creating regional autonomy so that a region does not feel social inequality.

2.7 Capital Expenditure

Capital expenditures are funds issued by the government regularly to obtain fixed assets whose economic life can be used for more than one year.

2.8 Governments Financial Performance

Financial performance is a form of assessment of the output of the implementation of activities related

to regional financial management activities within a certain period of time using financial parameters that have been determined by law and policies in one budget period. Mahmudi (2019), explains that financial ratio analysis is an indicator that can be used in estimating the financial performance of local governments. Steps that can be applied are to perform calculations on financial ratios, which are as follows:

a. Regional Independence Ratio

The calculation of this ratio can be done by comparing the total Locally Generated Revenue received with the total transfer receipts as a whole.

$$\text{Regional Independence Ratio} = \frac{\text{Locally Generated Revenue} \times 100\%}{\text{Balancing Funds}}$$

b. Regional Financial Dependency Ratio

The calculation of this ratio can be done by comparing the balancing funds realized by regional recipients with the total regional income.

$$\text{Regional Financial Dependency Ratio} = \frac{\text{Balancing Funds}}{\text{The Total of Locally Generated Revenue}} \times 100\%$$

c. Effectiveness and Efficiency Ratio

The calculation of the effectiveness ratio can be applied by comparing the received Locally Generated Revenue with the targeted Regional Original Income. Meanwhile, the efficiency ratio is carried out by comparing regional expenditures in obtaining Regional Original Income.

$$\text{Effectiveness Ratio} = \frac{\text{Realization of Locally generated Revenue}}{\text{The Target of Locally Generated Revenue}} \times 100\%$$

$$\text{Efficiency Ratio} = \frac{\text{Regional Expenditure}}{\text{Realization of Locally generated Revenue}} \times 100\%$$

d. Activity Ratio

The activity ratio is a ratio that illustrates how local governments prioritize funds for operating and capital expenditures to the fullest.

$$\text{Operating Expense Ratio} = \frac{\text{The Total of Operating Expenditure}}{\text{Realization of expense}} \times 100\%$$

$$\text{Capital Expenditure Ratio} = \frac{\text{The Total of Capital Expenditure}}{\text{Realization of Expense}} \times 100\%$$

e. Growth Ratio

This ratio is useful for reviewing whether the local government in a budget period of its budget performance feels good or bad revenue growth.

$$\text{Growth Ratio} = \frac{\text{Realization of Locally Generated Ratio}_{x_n} - \text{Realization of Locally Generated Ratio}_{x_{n-1}}}{\text{Realization of Locally Generated Ratio}_{x_{n-1}}} \times 100\%$$

Description:

X_n = Calculated Year

X_{n-1} = Previous Year

2.9 Research Hypotesis

Provisions that can be made in this research are:

H₁ : The Balancing Fund directly affects Locally Generated revenue.

H₂ : The Capital Expenditure directly affects Locally Generated revenue.

H₃ : The Balancing Fund directly affects the Regional Government's Financial Performance.

H₄ : The Capital Expenditure directly affects the Regional Government's Financial Performance.

H₅ : The Locally Generated Revenue directly affects the Regional Government's Financial Performance.

H₆ : Indirectly, the Balancing Fund affects Regional Financial Performance through Regional Original Income.

H₇ : Indirectly, Capital Expenditure affects the Government's Financial Performance through Regional Original Income.

3. Research Methodology

This research uses secondary data with quantitative research methods. In this thesis research, the researcher uses secondary data obtained from the documents contained on the website www.djpk.kemenkeu.go.id in the form of the South Sumatra Province APBD Realization Report from 2016-2020 (5 years). The variables used in this research are the dependent variable, namely the Regional Government Financial Performance (Y₂) with the effectiveness ratio as the measurement indicator, the independent variable consisting of Balancing Funds (X₁) and Capital Expenditures (X₂), and the intervening variable, namely Regional Original Income (Y₁). 17 districts/cities in South Sumatra Province were used as the research population, so that the sample used was 85 samples. The types of data analysis used are descriptive analysis, classical assumption test, hypothesis testing and path analysis. Statistical Product and Service Solutions (SPSS) for Windows Version 26 is software used by researchers in testing data.

4. Research Finding

4.1 Local Government Financial Performance Analysis

The ratio used in measuring the Financial Performance of the District/City Government of South Sumatra Province is the effectiveness ratio. The data used in conducting this research is the Regional Revenue and Expenditure Budget of the Directorate General of Regional Fiscal Balance of the Republic

of Indonesia. Based on the above formula, the average results from the effectiveness ratio analysis to measure the Financial Performance of the District/City Government of South Sumatra Province are as follows:

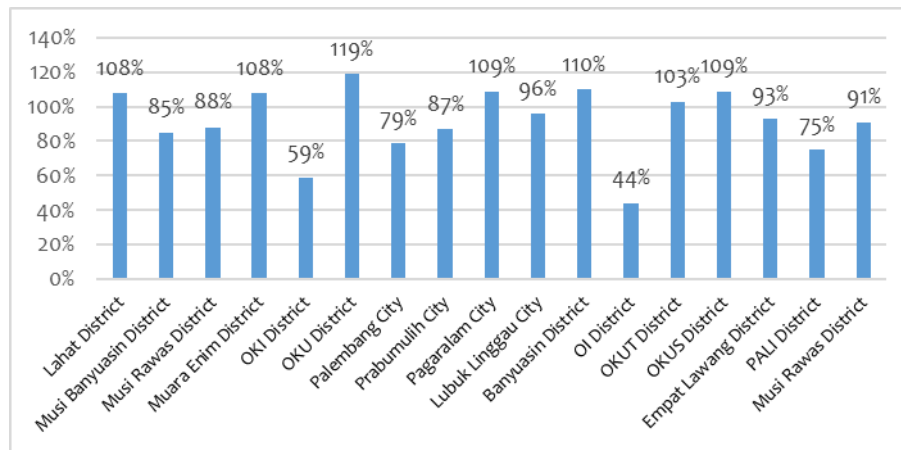


Figure 1 Average Financial Performance Effectiveness Ratio of District/City Government of South Sumatra Province

Based on Figure 1 above, it can be explained that during 2016-2020 the Financial Performance of District/City Governments in South Sumatra Province on average has not been fully effective. There are 7 districts/cities whose local government financial performance has been effective, where the financial ratios have reached >100%. The 7 (seven) Districts/Cities include Lahat District, Muara Enim District, Pagaralam City, Banyuasin District, OKU District, OKUT District and OKUS District. Meanwhile, the remaining financial ratios obtained are still below 100%. There are 2 districts/cities whose financial performance is not effective, namely OKI District and OI District.

4.2 Descriptive Statistical Analysis

This study uses quantitative data from the report on the realization of the Regional Government Budget of the District/City in South Sumatra Province in 2016-2020. The researcher uses 17 existing Districts/cities to serve as the research population so that the sample used is a total of 85 samples with the object of research being Balancing Funds, Capital Expenditures, Regional Original Income, and Regional Government Financial Performance. Statistical analysis in this research are:

1. The balancing fund has an average value of Rp. 1,069,637,323,045.06. The highest value was obtained at Rp. 3,103,333,197,302, while the lowest value was Rp. 258,977,162,194. The standard deviation obtained is 555,191,052,300,421.
2. Capital Expenditures have an average value of Rp. 333,849,770,005.80 The highest value is Rp. 1,115,910,029,299, while the lowest value is Rp. 8,665,963,742. The standard deviation obtained is 242,582,364,464,172.
3. Regional Original Income has an average value of Rp. 147.410.655.359.76. The highest value was

obtained at Rp. 1,091,704,605,855, while the lowest value was Rp. 9,053,637,745. The standard deviation obtained is 200.314.820.823.332.

- Regional Government Financial Performance has an average value of 92.42476. The highest value was obtained at 212.188 or in other words 212%, while the lowest value was 16.106 or in other words 16%. The standard deviation obtained is 42.235933.

4.3 Normality Test, Multicollinearity Test, Autocorrelation Test

Based on the results of the normality test, the Asymp value is known. Sig. (2-tailed) is 0.053. So, this research can be said to be normally distributed, because the value of 0.053 is greater than 0.05 ($0.053 > 0.05$). While the results of the multicollinearity test show that the Balance Fund tolerance value shows a number of 0.279, Capital Expenditures of 0.253 and Local Revenue of 0.618, the three values indicate a number greater than 0.10 or can be written as $0.279 > 0.10$, $0.253 > 0.10$, and $0.618 > 0.10$. Meanwhile, the VIF values of the Balancing Fund, Capital Expenditure, and Regional Original Income variables are 3.584, 3.955 and 1.619, respectively, the three values indicate a number smaller than 10 or can be written as $3.584 < 10$, $3.955 < 10$, and $1.619 < 10$, so it can be indicated that this research does not experience multicollinearity.

Meanwhile, the results of the autocorrelation test, Durbin Watson's value explains the number of 1.818. The number of data used in this research is $(n) = 85$, $k = 3$ (number of independent variables) and the DW table with sig 0.05. Based on the available data, the dL figure is 1.5752 and the dU is 1.7210 (open attachment) and the $4-dU$ value is 2.279 ($4 - 1.7210$). Based on the results of data processing, this research does not experience autocorrelation because the results of $Du < Dw < 4-Du$ are $1.7210 < 1.818 < 2.279$.

4.4 Simultaneous Significance Test (F Statistics Test)

Table 1 F Test Results (First Equation)
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1288241154063220400000000,000	2	6441205770316102000000 00,000	25,36 5	,000 ^b
	Residual	2082345151021413500000000,000	82	2539445306123675000000 0,000		
	Total	3370586305084634000000000,000	84			

a. Dependent Variable: Locally Generated Revenue

b. Predictors: (Constant), Capital Expenditure, Balancing Funds

Source: Processed secondary data, 2021

Based on the test results in equation 1 above, it is known that the F_{count} value in this test is 25.365 with a probability level of 0.05. To find out the value of F_{table} , it is known that $df1 = k-1 = 2-1 = 1$ and $df2 = n-k = 85-2 = 83$, so that the F_{table} value is 3.96. The F_{count} value generated in this test is 25.365. Based on the significance, the probability level in this study is smaller than the sig level, which is 5% (0.000

<0.05). This means that simultaneously the Balancing Fund (X_1) and Capital Expenditure (X_2) have an effect on Regional Original Income (Y_1). This is shown from the results of $F_{count} > F_{table}$, namely $25.365 > 3.96$ and $Sig < 0.05$ ($0.000 < 0.05$).

Table 2 F Test Results (Second Equation)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15080,563	3	5026,854	3,021	,034 ^b
	Residual	134764,854	81	1663,764		
	Total	149845,417	84			

a. Dependent Variable: Local Government Financial Performance

b. Predictors: (Constant), Locally Generated Revenue, Balancing Funds, Capital Expenditure

Source: Processed secondary data, 2021

Based on the test results in equation 2 above, it is known that the F_{count} value in this test is 3.021 with a probability level of 0.05. To find out the value of F_{table} , it is known that $df_1 = k-1 = 3-1 = 2$ and $df_2 = n-k = 85-3 = 82$, so that the F_{table} value is 2.72. The value of F_{count} generated in this test is 3.021. Based on the significance, the probability level in this study is smaller than the sig value of 5% ($0.034 < 0.05$). This means that simultaneously Balanced Funds (X_1), Capital Expenditures (X_2), Locally Generated Revenue (Y_1) have an impact on Regional Government Financial Performance (Y_2). This is shown from the results of $F_{count} > F_{table}$, namely $3.021 > 2.72$ and $Sig < 0.05$ ($0.034 < 0.05$).

4.5 Hypothesis Test Results

The provisional conjecture in this research was tested using path analysis using the following

equation: 1. $Y_1 = \rho_1 X_1 + \rho_2 X_2 + \epsilon_1$
 2. $Y_2 = \rho_1 X_1 + \rho_2 X_2 + \rho_3 Y_1 + \epsilon_2$

Table 3 T Test Results (First Equation)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-42737780154,093	38624508661,049		-1,106	,272
	Balancing Fund	,050	,059	,137	,839	,404
	Capital Expenditure	,411	,135	,498	3,040	,003

a. Dependent Variable: Locally Generated Revenue

Source: Processed secondary data, 2021

From the output above, first equation is obtained as follows:

$$Y_1 = 0,137X_1 + 0,498X_2 + \epsilon_1$$

The constant value (a) is -1.106 which means that the consistent value of the Regional Original Income

(Y₁) variable is -1.106. For the Balancing Fund coefficient (X₁) of 0.137, it states that if the Balancing Fund (X₁) increases, then the value of the Locally Generated Revenue (Y₁) variable increases by 0.137. For the Capital Expenditure coefficient (X₂) of 0.498, it states that if the Capital Expenditure (X₂) increases, then the value of the Locally Generated Revenue (Y₁) variable will experience an escalation of 0.498.

Table 4 T Test Result (Second Equation)
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	73,604	9,960		7,390	,000
Balancing Fund	0,000000000002378	,000	,031	,157	,876
Capital Expenditure	0,000000000006265	,000	,360	1,717	,090
Locally Generated Revenue	-0,000000000003146	,000	-,149	-1,113	,269

a. Dependent Variable: Local Government Financial Performance

Source: Processed secondary data, 2021

From the output above, we get second equation as : $Y_2 = 0,031X_1 + 0,360X_2 - 0,149Y_1 + \epsilon_2$

The constant value (a) is 7.390 which means that the consistent value of the Regional Government Financial Performance variable (Y₂) is 7.390. For the Balancing Fund coefficient (X₁) of 0.031, it states that if the Balancing Fund (X₁) increases, then the value of the Regional Government Financial Performance variable (Y₂) increases by 0.031. For the coefficient value of Capital Expenditure (X₂) of 0.360, it states that if Capital Expenditure (X₂) increases, then the value of the Regional Government Financial Performance variable (Y₂) will experience an escalation of 0.360, and for the coefficient value of Locally Generated Revenue (Y₁) of -0.149 states that if the Regional Original Income decreases, the value of the Regional Government Financial Performance variable (Y₂) will depreciate by -0.149. Based on the two path analysis outputs above, the results of the path coefficient framework path diagram are as follows:

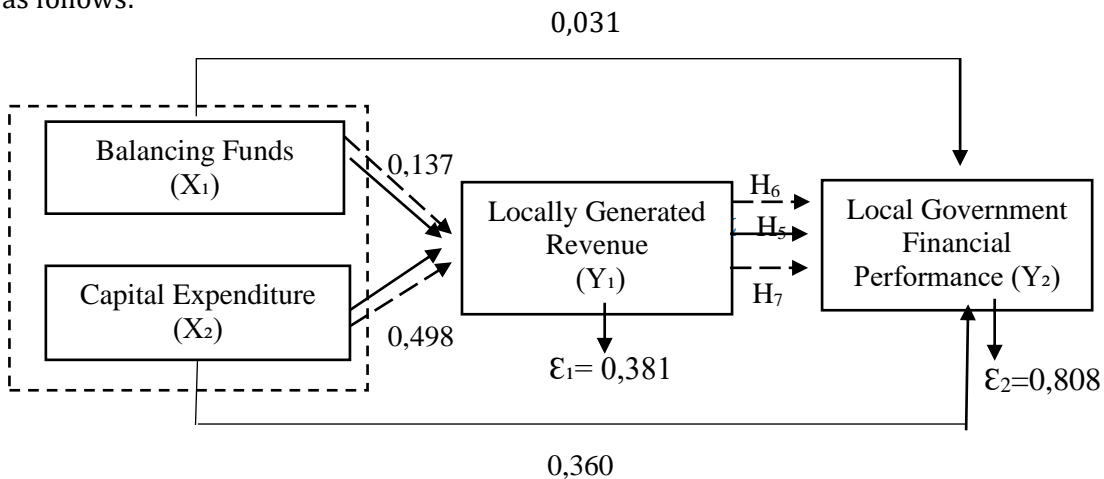


Figure 2 Result of Path Diagram Path Coefficient Framework

Based on Figure 2 above, it can be explained that the value of r^2 is the result of reducing the value of the coefficient of determination with the formula, namely $r^2 = (1-R^2)^2$, so that the value of $r^2 = (1-0.38^2)^2 = (0.618)^2 = 0.381924$. The value of $r^2 = 0.381924$ is also the result of reducing the value of the coefficient of determination with the formula $r^2 = (1-R^2)^2$, so that the value of $r^2 = (1-0.1011)^2 = (0.899)^2 = 0.808201$.

4.6 The Effect of Balancing Funds on Locally Generated Revenue

The first hypothesis indicates that the Balancing Fund does not directly affect the Regional Original Revenue of the District/City of South Sumatra Province during 2016-2020. This is shown from the analysis of the Balancing Fund variable which is known to be $t_{count} = 0.839$. The t_{count} value shows a number smaller than t_{table} , which is 1.98932 or $(0.839 < 1.98932)$. Then, the value of $sig = 0.404$, which shows that $0.404 > 0.05$. Based on the test results indicate that the Balancing Fund does not directly affect the Locally Generated Revenue, so it can be concluded that H_1 is rejected.

The results of the study prove that the balancing fund cannot affect Locally Generated revenue or is not able to increase Regional Original Revenue, because the balancing fund is a transfer of funds from the central government in the event that the regional original income allocated to an area is low. Meanwhile, regional original income is regional revenue obtained from original economic sources in the form of local tax collections, regional levies, Separated Regional Assets Management Results and Other Legitimate Regional Original Income. So that the level of Locally Generated revenue in an area is influenced by these four factors, not from balancing funds or funds from the central government. So, in conclusion, the balancing fund does not have an impact on local revenue. This research is in line with the research of Mauliza (2014) and Rasulong (2012) which states that the Balancing Fund cannot affect Locally Generated Revenue.

4.7 The Effect of Capital Expenditure on Locally Generated Revenue

The second hypothesis indicates that Capital Expenditures directly have an impact on the Locally Generated Revenue of the District/City of South Sumatra Province during 2016-2020. This is shown from the analysis of the Capital Expenditure variable which is known to have a t_{count} of 3.040. The t_{count} value shows a number greater than t_{table} , which is 1.98932 or $(3.040 > 1.98932)$. Then, the value of $sig = 0.003$, where this shows that $0.003 < 0.05$. Based on the test results indicate that the Capital Expenditure directly affects Locally Generated Revenue significantly, so it can be concluded that H_2 is accepted. Through this explanation, it can be interpreted that by increasing capital expenditure in an area, the government can create good public services for the community through infrastructure development. Through this infrastructure, the government can also collect in the form of levies or taxes to the community as a form of increasing Regional Original Income. South Sumatra Province is one of the largest provinces in Indonesia and the poverty rate in South Sumatra Province is still quite

high. Therefore, the South Sumatra Provincial Government is required to be able to allocate its regional capital expenditures evenly in order to improve public services that can have an impact on the welfare of the community. With the increase in public services, the contribution of Regional Original Revenue will increase. This is because the government carries out mandatory collection of infrastructure that has been built in the form of taxes, levies and so on, so that with the participation of the community it can make the regional economy of South Sumatra Province more productive. The average contribution of capital expenditure realized during 2016-2020 was 82.09%. From the results of the contribution of capital expenditures, the Province of South Sumatra obtained an average contribution of 85.46% of Locally Generated Revenue. If the contribution of capital expenditure received is greater, the original regional income received will also be much higher. Therefore, capital expenditures greatly affect the sustainability of Locally Generated Revenue receipts. The greater the capital expenditure allocated, the greater the Regional Government of South Sumatra Province will receive Regional Revenue. The results of this research are supported by Nugroho & Rohman (2012) and Darwanis & Saputra (2014), who argue that Capital Expenditure significantly affects Locally Generated Revenue.

4.8 The Effect of Balancing Funds on Regional Government Financial Performance

The third assumption explains that the Balancing Fund does not directly affect the financial performance of the District/City Government of South Sumatra Province during 2016-2020. This is shown from the analysis of the Balancing Fund variable which is known to have a t_{count} of 0.157. The t_{count} value shows a number smaller than t_{table} , which is 1.98969 or $(0.157 < 1.98969)$. Then, the value of $sig = 0.876$, which shows that $0.876 > 0.05$. Based on the test results indicate that the Balancing Fund directly does not affect the Financial Performance of the Regional Government, then H_3 is indicated to be rejected.

Balancing Funds are funds from the APBN which are grouped into Revenue Sharing Funds, General Allocation Funds and Special Allocation Funds whose purpose is to fund excess regional expenditures. If expenditure is greater than income, then a deficit will occur. Therefore, in order to cover the shortage of regional spending, the central government will transfer funds to regional governments in the form of balancing funds. The more balancing funds transferred by the central government, the stronger the dependence of local governments on the central government. The Balancing Fund allocated to the regional government of South Sumatra Province during the 2016-2020 period was an average of 91.60%. The realized balancing fund has almost reached the set target. This means that the intervention of the central government to the regions is still very high. The high level of dependence of local governments will not affect the improvement of local government financial performance. With the high transfer of balancing funds from the central government, the government's financial performance is getting weaker. The output of this research is supported by research by Prasasti

(2014) and Verawaty et al. (2020) which states that the Balancing Fund has no impact on the Financial Performance of District/City Governments in South Sumatra in 2014-2016.

4.9 The Effect of Capital Expenditure on Local Government Financial Performance

The fourth assumption indicates that Capital Expenditure does not directly affect the financial performance of the District/City Government of South Sumatra Province during 2016-2020. This is shown from the analysis of the Capital Expenditure variable which is known to have a t_{count} of 1.717. The t_{count} value shows a number smaller than t_{table} , which is 1.98969 or $(1.717 < 1.98969)$. Then, the value of $sig = 0.090$, which shows that $0.090 > 0.05$. The output proves that Capital Expenditure directly affects Regional Government Financial Performance with a negative value, so H_4 is indicated to be rejected.

Capital expenditure is expenditure on government fixed assets for government activities in order to increase regional assets or wealth. The greater the capital expenditure for development activities, the reciprocal will be in increasing regional income through taxation and investors, which in turn will affect the effectiveness of regional government financial performance. However, this research explains that capital expenditure does not affect the financial performance of local governments because the average capital expenditure realized during 2016-2020 is only 82.09% of the set target. This means that development activities in South Sumatra Province have not been fully evenly distributed. According to the Minister of Home Affairs, who has checked in various regions, the regional budget is apparently predominantly used for personnel expenditures and operational expenditures compared to capital expenditures. The proportion of employee expenditure received reaches 70-80%. The large proportion of personnel expenditures is due to the fact that there are still many regional heads who do not understand how the budget mechanism works. The Head of the South Sumatra DJPB Regional Office said that personnel expenditure in South Sumatra was the category of expenditure with the highest realization. In 2018, the realized capital expenditure was only 26% or around Rp. 3.6 Trillion. Therefore, capital expenditure does not affect the effectiveness of local government financial performance because the realization of capital expenditure is still relatively small. The output of this research is supported by research by Malau (2019) and Purwasih (2017) which prove that capital expenditure does not affect the government's financial performance.

4.10 The Effect of Locally Generated Revenue on Local Government Financial Performance

The fifth hypothesis explains that the Regional Original Revenue does not directly affect the Financial Performance of the District/City Government of South Sumatra Province during 2016-2020. This is shown from the analysis of the Regional Original Income Variable which has a t_{count} of -1.113. The t_{count} value shows a number smaller than t_{table} , which is 1.98969 or $(-1.113 < 1.98969)$. Then, the value of $sig = 0.269$, which shows that $0.269 > 0.05$. Based on the test results, it is explained that the Locally

Generated Revenue does not affect the Financial Performance of the Regional Government, so it can be concluded that H_5 is rejected.

The amount of Locally Generated Revenue generated by a region can be used as a parameter to measure the financial performance of local governments. This is because the local government can take advantage of the assets and potential that they have and the greater the local revenue, the better the local government's financial performance will be. The output of this research shows that the contribution made by each local government has not been able to increase the effectiveness of regional financial performance. This could have happened because the Locally Generated Revenue received by the region was not comparable to the high level of the poor that occurred in every region in South Sumatra Province. The high level of poverty causes the Regional Original Income received has not been able to improve the financial performance of local governments in districts/cities in South Sumatra Province. This means that the regional government of South Sumatra Province must be even more extravagant in encouraging the receipt of Regional Original Income through regional levies. The results of the research above are in line with research by Thalib (2019), Andirfa (2016), and Wahyuningsih (2020), with the results explaining that Locally Generated Revenue does not affect Regional Government Financial Performance.

4.11 The Effect of Balancing Funds on Regional Government Financial Performance through Locally Generated Revenue as an Intervening Variable

Table 5 The Effect of Balancing Funds on Regional Government Financial Performance through Locally Generated Revenue as an Intervening Variable

Variable	Direct Effect	Indirect Effect	Total
X_1 to Y_2	$(0,031)^2 \times 100\% = 0,09\%$		2,31%
Y_1 to Y_2	$(-0,149)^2 \times 100\% = 2,22\%$		
X_1 to Y_2 through Y_1		$2 (0,031 \times (-0,149) \times 0,137) \times 100\% = -0,12\%$	-0,12%
Simultaneous Influence			2,19%
Others Variable			97,81%

Source: Processed secondary data, 2021

The sixth hypothesis indicates that the Balancing Fund indirectly affects the financial performance of the Regional Government through Regional Original Revenue as an intervention variable in the District/City of South Sumatra Province during 2016-2020. This is shown from the results of path analysis data processing, where it is known that the Balancing Fund (X_1) directly affects the Financial Performance of the Regional Government (Y_2) by 0.09%, Regional Original Income (Y_1) directly affects the Financial Performance of the Regional Government (Y_2) of 2.22%, while the Balancing Fund (X_1) affects the Financial Performance of the Regional Government (Y_2) indirectly through Local Revenue (Y_1) is 2.19%. Thus, it can be said that the Balancing Fund has an impact on the Financial Performance of the Regional Government through Regional Original Revenue, therefore H_6 is indicated to be

accepted.

Locally Generated Revenue is an element of the APBD that can be used as a reference to see the good or bad financial performance of the regional government. With the high contribution given by Regional Original Income, the Regional Government's Financial Performance will be effective. Although the balancing funds that the Province of South Sumatra received from the central government, the average realization in the 2016-2020 period almost reached the set target of 91.60%. These results can be interpreted that there is still high interference from the central government to the regions, so that the level of effectiveness of the government's financial performance will decrease. The high level of dependence of local governments on the central government can be neutralized by the contribution of local revenue. Regional Original Revenue plays a very important role in supporting the improvement of local government financial performance, although the contribution given is not too large. Thus, the research results prove that Regional Original Revenue can be used as an intervening variable in seeing the effect of the Balancing Fund on the financial performance of local governments. The results of this research are in line with Ariwibowo (2015), where the output explains that the Balancing Fund affects the Financial Performance of Regional Governments through Regional Original Income as an indirect intervention variable.

4.12 The Effect of Capital Expenditure on Regional Government Financial Performance through Locally Generated Revenue as an Intervening Variable

Table 6 The Effect of Capital Expenditure on Regional Government Financial Performance through Locally Generated Revenue as an Intervening Variable

Variable	Direct Effect	Indirect Effect	Total
X ₁ to Y ₂	$(0,360)^2 \times 100\% = 12,96\%$		15,18%
Y ₁ to Y ₂	$(-0,149)^2 \times 100\% = 2,22\%$		
X ₁ to Y ₂ through Y ₁		$2 (0,360 \times (-0,149) \times 0,498) \times 100\% = -5,34\%$	-5,34%
Simultaneous Influence			9,84%
Others Variable			90,16%

Source: Processed secondary data, 2021

The regions continue to explore their sources of revenue from various aspects, because the benchmark for whether or not the local government's financial performance is good or not can be viewed from the Regional Original Revenue. The seventh hypothesis indicates that Capital Expenditures indirectly affect the Financial Performance of Local Governments through Regional Original Income as an intervention variable in the District/City of South Sumatra Province during 2016-2020. This is shown from the results of path analysis data processing, where it is known that Capital Expenditure (X₁) directly affects Regional Government Financial Performance (Y₂) by 12.96%, Regional Original Income (Y₁) variable affects Regional Government Financial Performance (Y₂) significantly. Directly by 2.22%, while indirectly Capital Expenditures (X₂) affect the Financial Performance of Local Governments (Y₂)

through Locally Generated Revenue (Y_1) amounting to 9.84%. Thus, it can be said that Capital Expenditure affects the Financial Performance of Regional Governments through Regional Original Income, so that H_7 is indicated to be accepted.

Locally Generated Revenue and Capital Expenditure are 2 (two) things that intersect or have a reciprocal relationship. In creating adequate infrastructure, a good contribution of capital expenditure is needed. Rational allocation of capital expenditure can help improve people's welfare. According to agency theory, local governments should take over and be independent in managing their regional financial activities in order to implement capital expenditures, so that clients, the people, are satisfied with the services in the form of facilities and infrastructure provided. The facilities and infrastructure that have been built are subject to levies by the regional government, namely in the form of regional taxes, regional levies, and so on. The goal is to regain regional revenue, which is known as local revenue so that the wheels of the regional economy continue to run. If Locally Generated Revenue gets a large contribution, then regional spending for development activities will soar. Locally Generated Revenue is all regional revenues from regional economic activities, where Locally Generated Revenue itself can support other elements of the Locally Generated Revenue and expenditure budget in order to improve the financial performance of regional governments.

Thus, Locally Generated Revenue can be used as an intervention variable in assessing the effect of capital expenditure on local government financial performance. Previous research conducted by Nugroho & Rohman (2012), Darwanis & Saputra (2014), Puspitasari, et al. (2015), Amrozi (2016), and Monalisa (2019), showed the same results, namely that capital expenditure indirectly affects financial performance. through Regional Original Revenue significantly.

5. Conclusion

From the results of this study obtained, the conclusions are:

1. The Balancing Fund variable does not directly affect Locally Generated Revenue in Districts/Cities in South Sumatra Province in 2016-2020. This is indicated by the value of $t_{count} < t_{table}$ which is $0.839 < 1.98932$ and $Sig > 0.05$ which is $0.404 > 0.05$.
2. The Capital Expenditure variable directly affects Locally Generated Revenue in Districts/Cities in South Sumatra Province in 2016-2020 significantly. This is indicated by the value of $t_{count} > t_{table}$, which is $3.040 > 1.98932$ and $Sig < 0.05$, which is $0.003 < 0.05$.
3. The Balancing Fund variable does not directly affect the Financial Performance of Local Governments in Districts/Cities in South Sumatra Province in 2016-2020. This is indicated by the value of $t_{count} < t_{table}$, namely $0.157 < 1.98969$ and $Sig > 0.05$, which is $0.867 > 0.05$.
4. Directly, the Capital Expenditure variable does not affect the Financial Performance of Local Governments in Districts/Cities in South Sumatra Province in 2016-2020. This is indicated by the value of $t_{count} < t_{table}$ which is $1.717 < 1.98969$ and $Sig > 0.05$ which is $0.090 > 0.05$.

5. Directly the Regional Original Income variable does not affect the Financial Performance of Local Governments in Districts/Cities in South Sumatra Province in 2016-2020. This is indicated by the value of $t_{count} < t_{table}$, which is $-1.113 < 1.98969$ and $Sig > 0.05$, which is $0.269 > 0.05$.
6. Indirectly, the Balancing Fund variable affects the Financial Performance of the Regional Government through Regional Original Income as an Intervening Variable in Districts /Cities in South Sumatra Province in 2016-2020. This is shown from the results of path analysis, where it is known that the Balancing Fund variable (X_1) directly affects the Regional Government Financial Performance variable (Y_2) by 0.09%, the Locally Generated Revenue variable (Y_1) directly affects the Regional Government Financial Performance variable (Y_2) is 2.22%, while the variable Balancing Fund (X_1) indirectly affects the Financial Performance of Local Governments (Y_2) through Local Revenue (Y_1) is 2.19%.
7. Indirectly, the Capital Expenditure variable affects the Financial Performance of the Regional Government through Regional Original Income as an Intervening Variable in Districts/Cities in South Sumatra Province in 2016-2020. This is shown from the results of path analysis data processing, where it is known that the Capital Expenditure variable (X_2) directly affects the Regional Government Financial Performance variable (Y_2) by 12.96%, the Locally Generated Revenue variable (Y_1) directly affects the Government Financial Performance variable. Region (Y_1) is 2.22%, while the Capital Expenditure variable (X_2) indirectly affects the Financial Performance of the Regional Government (Y_2) through Regional Original Income (Y_1) is 9.84%. Balance Fund and Capital Expenditure affect Performance Local Government Finance through Regional Original Revenue as an Intervening Variable in Districts/Cities in South Sumatra Province in 2016-2020.

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