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The Impact of Regional Original Income, Capital Expenditure, and Economic Growth on the Financial Performance of Local Governments in the Surakarta Residency from 2015 to 2020

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Abstract: *This study aims to analyze the effect of local revenue, capital expenditure and economic growth on the financial performance of local governments in the former Surakarta residency in 2015-2020. This research is included in quantitative research. The population of this research are districts/cities in Soloraya. The samples collected in this study were 42 local government financial reports in 7 districts/cities during the 2015-2020 period. The data used is secondary data where the data is obtained from the BPS for each district/city. SPSS 26 is used in research as an analytical tool. The results of this study indicate that (1) Regional Original Income has a Positive and Significant Effect on Regional Financial Performance. (2) Capital Expenditure has no effect on Regional Financial Performance. (3) Economic Growth Has a Positive and Significant Effect on Regional Financial Performance.*

Keywords: Regional Financial Performance, Regional Original Income, Capital Expenditure, Economic Growth

I. Introduction

Historically, the local administration had little jurisdiction due to the structure of centralization that had been implemented. However, since the implementation of Law Number 22 of 1999, as amended by Law Number 32 of 2004, regulating local government, local governments are able to regulate their territories according to their own policies. According to Elucidation of Law Number 32 of 2004, districts and cities are granted broad authority based on their potential and capabilities. Each area has the ability to enact rules for its people's welfare [1].

To carry out any development, significant funds are required. Regional income might come from aid from the central government or from the local government itself. In this case, however, the central government requires that each area investigate its own financial resources in accordance with the applicable laws.

Article 1 number 18 of Law Number 33 of 2014 regarding the financial balance between the central and regional governments states that "Regional Original Income, (hereinafter referred to as PAD), is the income obtained by the region that is collected in accordance with regional regulations with statutory regulations" [2]. PAD derives its funds from four sources: regional taxes, regional levies, the results of separated regional wealth management, and other legal regional original income [3].

Financial management is one of the most crucial factors that any region in Indonesia must apply. Regional financial management is the decisive factor in the development and governance of regional governments [4].

A crucial issue in local governments revolving around the change of spending patterns, given the significance of financing for capital expenditures [2]. If the financial resources owned are properly used and handled, it will be a reflection of the local government's performance. It is expected that the potentials of the regions may be leveraged effectively so that local revenue-based financial sources can increase.

Government expenditures that may contribute to regional income growth include capital expenditures [5]. According to Mohammed et al. (2015), capital expenditure is one of the local government expenditure activities that may expand fixed assets and provide long-term advantages for public services in an area [6].

Furthermore, economic growth may be used to evaluate a region's financial performance. Economic growth is an essential event for a country, and the issue of economic growth is the nation's objective so that it may also promote national development, so improving the quality level of Indonesian people and its society in a sustainable way [7]. The existence of economic growth indicates that economic development has been successful. The economy of a region may be determined by the region's greater or faster economic growth. Improved economic growth will have a good effect on economic development, particularly for regional income-related economic sectors [8].

Therefore, local governments must explore the potential of PAD sources in their own regions. In order to evaluate the effectiveness of a regional finance, a comparison must be made between regional expenditure revenues, also known as APBD, and the region's economic growth. Additionally, the efficient use of funds for capital expenditures must function properly [9].

With the various backgrounds above, the researchers took the topic "THE IMPACT OF REGIONAL ORIGINAL INCOME, CAPITAL EXPENDITURE, AND ECONOMIC GROWTH ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN THE SURAKARTA RESIDENCY FROM 2015 TO 2020". This aims to determine how PAD and capital expenditures affect the financial performance of the Solo Raya region. Because, as is well known, the financial performance of a region must be assessed and compared to the revenues or expenditures it generates for public services and community welfare.

II. Methodology

This research employs a quantitative research design, where numerical calculations are believed to be more objective since they decide the research's results.The author used secondary data for this research. According to Sugiyono (2012), secondary sources are sources that do not provide data directly to data collectors, such as through other persons or documents [10].

This research's data came from the Central Statistics Statistics Agency (BPS) of Central Java and the BPS of the Regency or City in the Solo Raya region, as well as from journals, websites, and books related to the theory employed in this research. The method in obtaining and collecting data that researchers do is as with documentation. Documentation is a method of collecting data by taking notes, taking pictures and storing them in a certain section as notes or pictures that will support research results.

The sampling method used in this research is the purposive sampling method, which involves identifying special characteristics that are in accordance with the research objectives so that it may be expected to answer research problems [11]. For data processing and drawing conclusions, the researchers used the SPSS computer software. This research determines the impact of local revenue (X1), regional capital expenditure (X2), and economic growth (X3) on the financial performance of local governments (Y).

A. Descriptive Statistics

Descriptive statistics aim to briefly describe the variables in the research through sample data [12]. Descriptive statistics are carried out to provide an overview of the observed variables

B. Classical Assumption Test

1. Normality Test

   The normality test was applied to determine whether or not the data is normally distributed. In this research, the CLT (Central Limit Theorem) test is applied, and the assumption of normality can be ignored if the number of observations is sufficient (n>30) [13]. In this research, the number of n is 31 > 30
   This indicates that the data are normally distributed and can be considered a large sample.

2. Multicollinearity Test

   If there is a high correlation between the independent variables, one of them is removed from the multiple regression model or added. Using the Variance Inflation Factor (VIF) with criteria, correlation between independent variables can be identified. The multicollinearity test requires the tolerance value > 0.1 and the VIF value < 10.
   Heteroscedasticity Test
   A good regression model is one in which *heteroscedasticity* does not occur. In this study, the Glejser test was used to conduct the Heteroscedasticity Test. If the value of sig. is > 0.05, it can be said that there is no *heteroscedasticity*.

3. Autocorrelation Test

   The Durbin-Watson test is one of the autocorrelation tests used to determine whether or not the regression equation contains autocorrelation. A problem with autocorrelation exists if the test reveals a correlation. A good regression model

is the one in which there is no autocorrelation. According to (14), the decision making whether there is autocorrelation or not, is if the DW value is between -2 and +2; otherwise, there is autocorrelation.

4. Multiple Regression Analysis

This test determines the simultaneous influence of two or more independent variables on the dependent variable (simultaneously). The test is conducted with a significance level of 0.05. The formula for regression is:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$.....(1)

C. Hypothesis Test

1. f Test

This test determines the significance of the effect of multiple independent variables on the dependent variable (15). If the calculated F value > the F table, then all independent variables have a statistically significant effect on the dependent variable.

2. t Test

The purpose of the t test was to determine the extent to which one independent variable explains the variance of the dependent variable. The following steps are based on hypothesis testing:
Ho: The variable independent has no influence on the variable dependent.
Ha: The variable independent has an influence on the variable dependent.

3. R^2 Test

The analysis of the coefficient of determination (R^2) is used to determine how much addition of an independent variable to the dependent variable, as stated as a percent. R^2 is widely used to determine the appropriateness or suitability of the regression line.

III. Results

A. Findings

This research is a quantitative analysis using secondary data from BPS Sukoharjo, Surakarta, Wonogiri, Boyolali, Klaten, Sragen, and Karanganyar regency from 2015 to 2020.

Tabel 1. The Research Variable Description

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
KinKeu_Y	31	2.345	4.349	3.11955	.704221
PAD_X1	31	19.318	21.254	19.97384	.658674
BMod_X2	31	19.372	21.362	20.03642	.555419
EG_X3	31	.215	1.785	1.31268	.432165
Valid N (listwise)	31				

Source : Processed Secondary Data (2022)

Table 1 shows that the values of each variable differ significantly; the mean value ranges from 1 to 21, the standard deviation value ranges from 0.4 to 1, the maximum value ranges from 1 to 22, and the minimum value ranges from 0.2 to 20.

The normality test is utilized to determine whether or not the data is normally distributed. In this research, the assumption of normality can be ignored if the number of observations is sufficient (n>30) and the CLT (Central Limit Theorem) test is applied [13]. In this research, the number of n is 31 > 30. This indicates that the data is normally distributed and may be considered a large sample.As a prerequisite, the regression model must have a tolerance value > 0.10 and a VIF value< 10, so that multicollinearity does not occur.

Tabel 2. Result of Multicollinearity Test

Variabel	Tolerance	VIF	Description
PAD (X1)	0,107	9,385	No multicollinearity
Belanja Modal (X2)	0,100	9,985	No multicollinearity
Pertumbuhan Ekonomi (X3)	0,783	1,276	No multicollinearity

Source : Processed Secondary Data (2022)

From the table above, it can be seen that the tolerance is > 0.1 and VIF < 10, therefore, there is no multicollinearity.

The condition for determining heteroscedasticity, is, if the significance value is < 0.05, then heteroscedasticity occurs and vice versa.

Tabel 3 Result of Heteroscedasticity Test

Variable	Sig	Description
PAD (X1)	0,716	No heteroscedasticity
Belanja Modal (X2)	0,373	No heteroscedasticity
Pertumbuhan Ekonomi (X3)	0,230	No heteroscedasticity

Source : Processed Secondary Data (2022)

From the table above, it can be seen that the significance value is > 0.05, therefore, there is no multicollinearity.
The DW test is one of the most often used tests for determining autocorrelation's presence or absence.

Tabel 4 Result of Autocorrelation Test

DW Value-count	Criteria	Description
0,567	DW between -2 and +2	No Autocorrelation

Source : Processed Secondary Data (2022)

Based on table 4.4 using the degree of error (α) = 5% as well as the fact that the DW value of the regression results is 0.567, which places it between -2 and +2, it can be concluded that there are no autocorrelation issues with the regression results.

This research determines the influence of Regional Original Income (PAD) (X_1), Capital Expenditure (X_2), and Economic Growth (X_3) on Regional Financial Performance (Y).

Tabel 5 Recapitulation of Multiple Regression

Variable	Unstandardized Coefficients	t	Sig.
(Constant)	-15,970	-10,986	0,000
Regional Original Income (PAD)	1,230	7,118	0,000
Capital Expenditure (BM)	-0,288	-1,361	0,185
Economic Growth (EG)	0,218	2,240	0,034

Source : Processed Secondary Data (2022)

The following outcomes are determined based on the calculation results:
KKD = (-15,970) + 1,230PAD + (-0,288)BM+ 0,218EG
a = -15,970. The constant is -15.970. It means that if the PAD (X1), capital expenditure (X2), and economic growth (X3) variables remain constant/no change, the regional financial performance variable in Solo Raya region in 2015 to 2020 will decrease by -15.970.b1 = 1,230. PAD regression coefficient (X1) is 1,230, which indicates that if capital expenditure (X2) and economic growth (X3) remain constant, the regional financial performance in Solo Raya region will change by 1,230.b2 = -0,288 the capital expenditure regression coefficient (X2) is -0.288, which indicates that if PAD (X1) and economic growth (X3) remain constant, the financial performance of Solo Raya region will decline by 0.288.b3 = 0,218 the regression coefficient of economic growth (X3) is 0.218, which indicates that if PAD (X1) and capital expenditures (X2) remain constant, the financial performance in Solo Raya region will increase by 0.218.

The F test is used to determine the accuracy of the model's estimation of the impact of the independent variables (local revenue, capital expenditure, and economic growth) on the dependent variable (regional financial performance). Ho is approved if the p-value is > 0.05, while Ho is rejected if the p-value is < 0.05.According to the SPSS version 26 calculation findings, the value of the Fcount test is 110.780 < Ftable 2.96, and the significance value is 0.000 from significance value < 0.000. The value of the Fcount test is 110.78 and the significance value is 0.000, indicating that the independent variables (regional original income, capital expenditure, and economic growth) have a significant impact on the dependent variable (regional financial performance).

The calculation to test the significance of the independent variables (regional original income and capital expenditure) on the dependent variable (regional financial performance) done individually is H0 : β = 0, indicating that the independent variable has no influence on the dependent variable. H1 : β = 0, indicates that the independent variable has an influence on the dependent variable.
1) Based on these calculations, the results of the tcount test are 7.118 > ttable 2.039 and the significance value is 0.000 from the significance value < 0.05, indicating that the regional original income variable (X1) has a significant influence on regional financial performance (Y).

2) Based on these calculations, the results of the tcount are -1.361 < ttable 2.039 and the significance value is 0.185 from the significance value > 0.05, indicating that the capital expenditure variable (X2) has no significant influence on regional financial performance (Y).
This analysis determines the percentage contribution of the independent variable (local revenue, capital expenditure, and economic growth) to the dependent variable (regional financial performance).According to the results of the calculation, the coefficient of determination (R2) is 0.925, which indicates that the proportion of the independent variable (regional original income, capital expenditure, and economic growth) to the dependent variable (regional financial performance) is 92.5%, with the remaining 7.5% being accounted for by the remaining variables were described by variables or factors outside to the model.

B. Discussions

1. The Impact of Regional Original Income on Regional Financial Performance.

As noted in table 4.5, the *coefficient* value is 7.118, a significant value of 0.000 which is less than 0.05, indicating a significant and positive influence between local revenue and regional financial performance in Solo Raya region from 2015 to 2020. This research's findings are consistent with those of Jaya and Dwirandra (2019) and Antari and Sendana (2018)[5], who found that local revenue affects regional financial performance. According to Sari & Mustanda (2019), local revenue has a positive impact on the financial performance of local governments [4].

2. The Impact of Capital Expenditure on Regional Financial Performance

The findings of this research, as shown in table 4.5, indicate that the *coefficient* value is -1,361, and a significant value of 0.185 which is greater than 0.05 indicates that there is no significant and negative effect between capital expenditures and Regional Financial Performance in Solo Raya region from 2015 to 2020. This research's finding is in line with Oktarina et al. (2020)[16] and Antari and Sendana (2018) research [5], who found that capital expenditure effects on Regional Financial Performance. Capital Expenditures, according to Suryani & Pariani (2018), are expenditures made in the context of capital formation that add to fixed assets/inventory and give benefits for several accounting periods [17].

3. The Impact of Economic Growth on Regional Financial Performance.

As shown in table 4.5, the coefficient value is 2.240, with a significance value of 0.034 that is less than 0.05, indicating that there is a significant and positive influence between economic growth and Regional Financial Performance in Solo Raya region from 2015 to 2020.In accordance with the findings of Heryanti et al. (2019), economic growth has a research on Regional Financial Performance [18]. According to Jhingan (2012), economic growth is the process of increasing per capita production through time. Consequently, economic growth is dynamic, considering how an economy grows or changes through time. [19]

IV. Conclusion

The following are some conclusions that may be drawn from the research and discussion that has been conducted: There are a positive and significant relationship between local revenue and regional financial performance.There are no significant relationship between capital expenditure and Regional Financial Performance.There are a positive and significant relationship between economic growth and regional financial performance.

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