

## Factors Affecting the Financial Performance of Local Governments

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**Abstract.** Problem factors that affect the financial performance of local governments include local taxes and balancing funds. Increasing local tax sources and decreasing balancing funds in Tasikmalaya Regency were not accompanied by increased financial performance, but what happened was a decline in financial performance. The purpose of this study was to determine how much the factors that influence the financial performance of local governments in West Java Province. This research uses descriptive analysis method with verification approach. The secondary data source is 27 LHP (Audit Result Report) in the form of LKPD (Regional Government Performance Report). Descriptive analysis uses descriptive statistics and verification analysis uses multiple linear regression analysis. The results showed that the local tax factor has a positive effect on financial performance and the balancing fund factor has a negative effect on financial performance. So it can be concluded that the most important factor in regional financial performance is increasing local tax revenue as a major component of financial independence for local governments, so that the ability of local governments to develop their territories becomes more flexible in implementing equitable distribution of community welfare in West Java Province.

**Keywords:** Local Taxes, Balancing Funds, Financial Performance, Local Government.

### 1. Introduction

Local governments are given the authority to regulate all regional financial management. The principle of fiscal decentralization to manage finances, where financial management is carried out to achieve development goals [1]. The Balancing Fund is the revenue of a region that comes from the APBN (state expenditure budget) given to a region to be used to fund government activities so that the implementation of decentralization can be realized [2].

Regional financial performance is the ability of a region to acquire and manage regional financial sources [3]. The amount of local tax revenue can be seen from the APBD realization report (regional revenue budget) in the PAD post (Regional Original Income) [4]. The Balancing Fund is the revenue of a region originating from APBN revenues given to a region to be used to finance government activities so that the implementation of decentralization can be realized [5]. An area that is considered advanced is a region that receives large regional income, especially from sources of regional original income, one of which is regional taxes. The phenomenon that occurs local taxes are

not realized according to the target due to the lack of awareness of taxpayers in reporting and paying taxes so that it affects financial performance in 2016 by 8% and decreases in 2017 to 7% due to the small contribution of local taxes on local revenue. so that local revenue is not able to cover the increase in spending, this shows that an increase in local taxes is accompanied by a decline in financial performance due to a decreasing self-reliance ratio. This is understandable because with high local taxes, the financial performance will be even better [6].

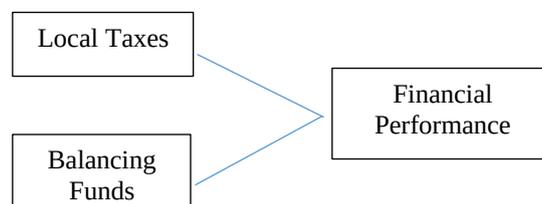
The phenomenon in Tasikmalaya Regency in 2017 that the balance fund did not reach 100% because the budget ceiling based on the Perpres APBN / PMK was only an estimate, while the realization transferred to the regions was based on the realization of the balance of funds received, while the financial performance in 2017 was 14% and decreased. in 2018 to 9% due to local revenue not being able to cover regional spending so that Tasikmalaya Regency is still quite dependent on balancing funds. Meanwhile, the greater the Balancing Fund provided by the central government will reflect the stronger the regional government depends on the central government so that regional needs can be met. So that it will make the regional financial performance decrease [7].

## 2. Method

This research uses descriptive methods to describe and explanatory methods to explain the relationship between Local Taxes, Balancing Funds and Financial Performance. The type of research used is verification research to empirically prove the relationship between the three research variables with a partial correlation test. Research analysis unit in 27 regional governments (pemda). The secondary data type is statistical data from BPS (Statistics Indonesia) of the regional government in West Java for the period of 2016-2018.

The sampling method uses the saturated sample (survey) because the population and sample used are the same, namely 27 local government entities in West Java for 3 years (2016-2018) of 81 entities. The research variables consist of independent variables: independent variables 1. Local taxes with pajak daerah berasal dari pajak provinsi, kabupaten dan kota sebagai indicators [6], and independent variables 2. Balancing Funds with indicators of dana bagi hasil, dana alokasi umum dan dana alokasi khusus [2]. The dependent variable is the independence of Financial Performance with indicators of regional financial dependence [3].

In Figure 1 shows the relationship of Local Taxes increases Financial Performance, referring to reference [6], and Balancing Funds that supports Financial Performance, referring to reference [7].



**Figure 1.** Research paradigm

Based on the description of previous research, the paradigm of this study can be explained in Figure 1 shows the relationship between Local Taxes variables, Balancing Funds to Financial Performance.

## 3. Results

This study uses 27 local government entities (provinces, cities and districts) in West Java. The development of the average value of Local Taxes in the Regional Government in West Java Province has a trend that continues to increase every year. Where the lowest average value was in 2016 and the highest average value was 2018. The development of the average value of Balancing Funds in

Regional Governments in West Java Province has a trend that continues to increase every year. Where the lowest average value is in 2016 and the highest average value is in 2018. The development of the average value of financial performance in local governments in West Java Province has a fluctuating trend throughout the study period from 2016 to 2018. Where the lowest average value was in 2016 and the highest average value was in 2017.

### 3.1. Normality Test

Table 1 below shows The significance value obtained is  $0.98 > 0.05$  so that according to the test criteria it can be concluded that the residues in the regression model are normally distributed.

**Table 1.** One Sample Kolmogorov-Smirnov Test.

		Unstandardized Residual
N		81
Normal Parameters <sup>a,b</sup>	Mean	.0E-7
	Std. Deviation	5,69485383
Most Extreme Differences	Absolute	,052
	Positive	,052
	Negative	-,049
Kolmogorov-Smirnov Z		,469
Asymp. Sig. (2-tailed)		,980

a. Test distribution is Normal.

b. Calculated from data.

### 3.2. Multicollinearity Test

Table 2 below shows The tolerance value obtained for the two independent variables is  $0.855 > 0.1$  with a VIF value of  $1.170 < 10$ . These results indicate that they are free from multicollinearity problems.

**Table 2.** Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Pajak_Daerah	,855	1,170
	Dana_Perimbangan	,855	1,170

a. Dependent Variable: Kinerja\_Keuangan

### 3.3. Heteroscedasticity Test

Table 3 below shows The significance value obtained is 0.329 for Local Taxes and 0.082 for Balancing Funds. This means that  $0.329 > 0.05$  and  $0.082 > 0.05$  so that according to the test criteria it can be concluded that the residue in the regression model is free from heteroscedasticity problems.

**Table 3.** Heteroscedasticity Test Results

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,357	,057		6,281	,000
	Pajak_Daerah	,000	,000	-,116	-,983	,329
	Dana_Perimbangan	-,001	,000	-,208	-1,764	,082

a. Dependent Variable: abresid

### 3.4. Autocorrelation Test

Table 4 shows The DW value is 1.101. This value is between -2 and 2 meaning that there is no autocorrelation.

**Table 4.** Autocorrelation test results

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,865 <sup>a</sup>	,748	,742	5,767	1,101

a. Predictors: (Constant), Dana\_Perimbangan, Pajak\_Daerah

b. Dependent Variable: Kinerja\_Keuangan

### 3.5. Estimated Multiple Linear Regression

Table 5 show the result of multiple linear regression from this study.

**Table 5.** Multiple Linear Regression.

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25,131	1,767		14,220	,000
	Pajak_Daerah	,019	,001	,935	15,214	,000
	Dana_Perimbangan	-,006	,001	-,328	-5,332	,000

a. Dependent Variable: Kinerja\_Keuangan

$$Y = 25,131 + 0,019 X_1 - 0,006 X_2$$

Table 6 shows The partial correlation value between Local Taxes and Financial Performance is 0.865 and is included in the very strong correlation category. The correlation value is positive, which indicates that the relationship between the two is unidirectional, meaning that the greater the local tax, the greater the financial performance. The partial correlation value between Balanced Funds and Financial Performance is -0.517 and is included in the moderate correlation category. The correlation value is negative which indicates that the relationship between the two is unidirectional, meaning that the greater the Balancing Fund, the lower the Financial Performance.

**Table 6.** Partial Correlation Coefficient between Local Taxes and Financial Performance.

Control Variables			Pajak_Daerah	Kinerja_Keuangan
Dana_Perimbangan	Pajak_Daerah	Correlation	1,000	,865
		Significance (2-tailed)	.	,000
		df	0	78
Kinerja_Keuangan	Kinerja_Keuangan	Correlation	,865	1,000
		Significance (2-tailed)	,000	.
		df	78	0

Table 7 show The effect of local taxes on financial performance is 74.82%, while the remaining 25.18% is influenced by other variables not examined in this study such as regional retribution, the results of separated regional wealth management.

**Table 7.** Partial Correlation Coefficient between Balancing Funds and Financial Performance.

Control Variables			Dana_Perimbangan	Kinerja_Keuangan
Pajak_Daerah	Dana_Perimbangan	Correlation	1,000	-,517
		Significance (2-tailed)	.	,000
		df	0	78
Kinerja_Keuangan	Kinerja_Keuangan	Correlation	-,517	1,000
		Significance (2-tailed)	,000	.
		df	78	0

The effect of balancing funds on financial performance is 26.73% while the remaining 73.27% is influenced by other variables not examined in this study such as adjustment funds, financial assistance.

### 3.6. Hypothesis test

It can be seen that the t count for local taxes is 15.214 > the t table value is 1.99, and the significance value is 0.000 < 0.05, so H0 is rejected and H1 is accepted, which means that there is a significant influence between local taxes on financial performance. It is known that the t value for Balancing Fund is -5.332. This value will be compared with the t table value which is equal to -1.99. It can be seen that the tcount for the balance fund is 5,332 > the t table value is 1.99, and the significance value is 0.000 < 0.05, so H0 is rejected and H1 is accepted, meaning that there is a significant influence between Balanced Funds on Financial Performance.

## 4. Discussion

The results of the hypothesis testing obtained show that local taxes have a significant effect on financial performance in local governments in West Java province for the period 2016-2018. The results of partial correlation testing fall into the very strong relationship category. The positive correlation value shows that the relationship is unidirectional, meaning that the greater the local tax,

the greater the financial performance. Local taxes have an influence of 74.82% on financial performance which can be interpreted in a very strong category, the remaining 25.18% is influenced by other factors not examined in this study such as regional retribution, the results of separated regional wealth management. Previous research conducted by Rahma (2014) which results stated that local taxes have an effect on the financial performance of local governments and research conducted by Ina Matande (2019) also states that local taxes have a positive effect on the financial performance of local governments.

The results of the hypothesis testing obtained indicate that the Balancing Fund has a significant influence on the Financial Performance of Local Governments in West Java Province for the 2016-2018 period. The partial correlation test results fall into the moderate relationship category. The negative correlation value indicates that the relationship between the two is unidirectional, meaning that the higher the Balancing Fund, the lower the financial performance will be. Balanced Fund has an influence of 26.73% on financial performance can be interpreted in the medium category, the remaining 73.27% is influenced by other factors not examined in this study such as adjustment funds, financial assistance. Previous research conducted by Budianto (2016) stated that balanced funds had a negative effect on the financial performance of local governments and research conducted by Putri (2018) stated that balanced funds had an effect on the financial performance of local governments.

## 5. Conclusion

Local Taxes have a positive and significant effect on Financial Performance in Local Government in West Java Province for the period 2016-2018. The magnitude of the influence of local taxes on financial performance can be interpreted in the very strong category, but there is still a gap that local tax revenues are still not optimal. Balanced Fund has a negative and significant effect on Financial Performance in Regional Government in West Java Province for the period 2016-2018. The magnitude of the influence of the balance funds on financial performance can be interpreted in the moderate category, but there is still a gap that the realization of the balance funds has not yet been optimal.

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