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THE INFLUENCE OF GENERAL ALLOCATION FUNDS AND CAPITAL EXPENDITURES ON THE FINANCIAL PERFORMANCE OF REGENCY/CITY REGIONAL GOVERNMENTS IN EAST JAVA PROVINCE IN 2018-2022

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Abstract
This research aims to analyze the influence of General Allocation Funds and Capital Expenditures on the financial performance of the Regency/City regional government of East Java Province in 2018-2022. The object of this research is 38 Regency/City Budget Realization Reports for East Java Province 2018-2022. This research data collection method uses documentation techniques by obtaining data from the official DJPK website of the Ministry of Finance. The research results reveal that the General Allocation Funds has a negative effect on the Financial Performance of Regency/City East Java Province in 2018-2022. Meanwhile, capital expenditure has a positive effect on the financial performance of districts/cities in East Java Province in 2018-2022.

Keywords: *Capital Expenditure; Financial Performance; and General Allocation Funds.*

INTRODUCTION

The implementation of a regional autonomy policy is a reflection of changes in the government framework from centralization to decentralization. This policy is regulated in UU No. 23 of 2014 concerning regional government and UU No. 33 of 2004 concerning the financial balance of central and regional governments. One of the regions that has implemented regional autonomy is East Java Province. The implementation of regional autonomy can help regional governments to progress and improve the welfare of the community by utilizing regional talents (Simamora & Budiwitjaksono, 2022). Financial management of a region is a determining factor in development progress and government organization. The characteristics of successful regional autonomy can be seen in regional financial management. The Regional Revenue and Expenditure Budget (APBD) is the most important part of regional government which funds and implements all types of plans and projects that have been prepared.

An important component of the APBD cannot be separated from Original Regional Income (PAD). Apart from PAD, regional income is obtained from general allocation funds (DAU). DAU is money obtained from the APBN and is determined to achieve monetary balance between Regencies/Cities within the framework of decentralization (Pradana & Handayani, 2023). The government prioritizes the use of DAU to overcome regional problems and develop regional government administration to realize provincial independence. Based on PP No. 71 of 2010 concerning Government Accounting Standards, capital expenditure is expenditure made to obtain tangible fixed assets with a useful life of more than one period that exceeds the predetermined asset capitalization limit. Proceeds from capital expenditure are intended for the efficiency of public facilities and infrastructure as a form of government responsibility. According to Ratnasari & Meirini (2022),

building community service facilities becomes more feasible as capital expenditure increases. The ability of regional governments to manage their finances, such as the ability to grow regional tax revenues and support the development of public services is reflected in the APBD (Rheswari & Akbar, 2022).

According to Priono et al., (2019) conducting performance analysis is very important because it can test government accountability in public services, including showing that public funds have been allocated appropriately. The government's financial performance can be measured by its ability to explore regional potential to increase sources of income each year. The aim of measuring regional performance is to show government compliance with regulations for the success of decentralization (Putri & Ratnawati, 2023). One way to assess regional government financial performance is to use the regional financial independence ratio. According to Mahmudi (2016:141), there are criteria for a region to be said to be independent if it has a high financial independence ratio of 75%-100%, the medium category is 50%-75%, the low category is 25%-50% and 0%-25% very low category.

The financial performance of the regional government of the Regency/City of East Java Province in 2022, when measured by the independence ratio, shows that the government has a low average level of independence, namely 28%. There is 1 region out of a total of 38 regencies/cities in East Java which is in the high category and 3 regencies/cities are in the medium category. This shows that the average contribution to local original income is still relatively low compared to the value of general allocation funds as a form of central government transfer funds which is still high.

However, according to bps.go.id (20/12/23), the Human Development Index (HDI) for East Java Province is in 13th position out of all Indonesian provinces. According to Khairudin et al., (2020), if a region has a high HDI, it means that its independence ratio is relatively high, which means the region's financial performance is stable. Given this imbalance, research was conducted to examine the influence of DAU and Capital Expenditures on the financial performance of Regencies/Cities of East Java Province in 2018-2022 with the hope that the regional government of East Java Province will evaluate financial management which can influence the level of financial performance as an embodiment of community welfare.

The Influence of General Allocation Funds on Regional Government Financial Performance

According to UU No. 33 of 2004 concerning Financial Balance between the Central and Regional Governments, general allocation funds are part of transfer funds with funding sources from APBN revenues with allocations for the needs of implementing decentralization. If general allocation funds (DAU) dominates a region's financing more than PAD, it means that the region's financial performance is highly dependent on funds from the central government.

The large general allocation funds (DAU) allocation from the central government makes a region increasingly dependent on subsidies from the government and causes low regional government

performance. This is supported by research from Sugiyanto & Musfirati (2021) and Fatmawati & Omega (2020) with the results that general allocation funds have a negative effect on financial performance. Meanwhile, research conducted by Sari & Wati (2021) and Febriyanti (2022) shows that special allocation funds have a positive and significant influence on regional financial performance.

H_1: General allocation funds (DAU) have a negative effect on financial performance.

The Influence of Capital Expenditure on Local Government Financial Performance

According to UU No. 18 Tahun 2016, capital expenditure includes types of government expenditure on capital formation in the form of land, buildings and structures, equipment and machines, networks, and so on, the value of the benefits of which exceeds one budget year. Budget capital expenditure can result in increased capacity, replacement, procurement, and improvement of the quality and maintenance of certain assets, as well as generating financial resources in the form of infrastructure development in the form of public service facilities.

According to Niswani et al., (2022) increasing the development of public services helps improve government financial performance. In accordance with research from Prastiwi & Aji (2020) and Digdowiseiso et al., (2022) the results of capital expenditure have a positive influence on financial performance. Meanwhile, according to Nauw & Budi (2021) and Febrianty & Putra (2023) capital expenditure has a negative effect on financial performance.

H_2: Capital expenditure has a positive effect on financial performance

METHOD

This research is quantitative in type. Data collection is carried out through documentation techniques on the official DJPK website of the Ministry of Finance. This research has a population of 38 Regency/City Budget Realization Reports in East Java Province. Determination of the sample uses a saturated sample so that all members of the population are used as the sample. The sample for this research was 38 with a range of 2018-2022 so that 190 research data were obtained. The tests carried out were descriptive statistical analysis, normality test, classical assumption test, multiple regression analysis, F test, t test and coefficient of determination test. Test The data was processed with the help of SPSS version 25. This research contains one dependent variable and two independent variables:

Dependent Variable

The measurement of regional government financial performance variables in this research refers to (Mahmudi, 2016:140) :

$$\text{Rasio Derajat Desentralisasi Fiskal} = \frac{\text{Pendapatan Asli Daerah}}{\text{Total Pendapatan Daerah}} \times 100\%$$

Independent Variable

1. The measurement of the General Allocation Fund variable in this research refers to the Budget Realization Report (LRA) adopted from (Pradana & Handayani, 2023).
2. The measurement of the capital expenditure variable was adopted from Ratnasari & Meirini (2022), capital expenditure has been presented in the Budget Realization Report (LRA) and is obtained based on the following calculations:

Capital Expenditure = Buildings and Structures + Land Expenditure + Equipment and Machinery + Roads, Irrigation and Networks + Construction in progress + Other Fixed Assets

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1 Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
General Allocation Funds	190	3,739	4,700	1,24024	6,33061
Capital Expenditure	190	6,935	2,754	3,98388	3,50275
Financial Performance	190	0,074	0,614	0,18623	0,094137
Valid N (listwise)	190				

Source: Processed data using SPSS 25

Table 1 shows the results of descriptive statistical analysis on the general allocation funds variable with a mean value of 1.24024, a standard deviation value of 6.33061, a minimum and maximum value of 3.739 and 4.700; The capital expenditure variable has a mean value of 3.98388, a standard deviation value of 3.50275, a minimum and maximum value of 6.935 and 2.754; The financial performance variable has a mean value of 0.18623, a standard deviation value of 0.094137 and has a minimum and maximum value of 0.074 and 0.614.

Normality Test

Table 2 Normality Test

	Unstandardized Residual
N	190
Exact. Sig. (2-tailed)	0.189

Source: Processed data using SPSS 25

Table 2 shows the results of the One-Sample Kolmogrov-Smirnov normality test with a significance of 0.189. Data requirements are said to be normal if they have significance > 0.05. By obtaining this significance value, it can be said that the data is normally distributed.

Classic Assumption Test

1. Multicollinearity Test

Table 3 Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	General Allocation Funds	0,821	1,218
	Capital Expenditure	0,821	1,218

Source: Processed data using SPSS 25

Table 3 shows the results of the multicollinearity test. Multicollinearity test with a model that is free from multicollinearity problems is a model that has tolerance results > 0.100 and VIF < 10.00. This research has a variable tolerance result of 0.821 and a VIF result of 1.218. So this model is free from multicollinearity problems.

2. Autocorrelation Test

Table 4 Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.643[a]	.413	.407	.07449	1.954

Source: Processed data using SPSS 25

Table 4 shows the Durbin-Watson results of 1.954 with an independent variable (2) and an N (190). With these values, the dL value is 1.7413 and dU is 1.7838, thus showing dU < 1.954 < 4 - dU, which means there is no autocorrelation.

3. Heteroscedasticity Test

Table 5 Heteroscedasticity Test

	Model	Sig.
Spearman's rho	General Allocation Funds	0,724
	Capital Expenditure	0,051
	N	190

Source: Processed data using SPSS 25

Table 5 shows that the general allocation fund variable has a significance of 0.724 > 0.05; the capital expenditure variable has a significance of 0.051 > 0.05. So it can be concluded that all variables are free from heteroscedasticity with the regression model.

Multiple Linear Regression Analysis

Table 6 Multiple Linear Regression Analysis

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	.117	.011		10.922	.000
	General Allocation Funds	-2.875E-14	.000	-.173	-2.718	.007

	Capital Expenditure	1.882E-13	.000	.705	11.107	.000

Source: Processed data using SPSS 25

Table 6 shows the multiple linear regression equation as follows:

$$Y = 0.117 – 2.875X_1 + 1.882X_2$$

The interpretation of the equation is as follows:

1. The results show a constant of 0.117 with a positive sign meaning that if the independent variable is constant then the regional government financial performance value (Y) is 0.117%.
2. The general allocation fund coefficient (X_1) has a value of -2.875 with a negative sign, meaning that if the general allocation fund increases per one rupiah, the financial performance will decrease by 2.875%, it is assumed that other variables are constant.
3. The capital expenditure coefficient (X_2) has a value of 1.882 with a positive sign, meaning that if capital expenditure increases per one rupiah, it results in financial performance increasing by 1.882%, it is assumed that other variables are constant.

Based on Table 6, the significance value of the General Allocation Fund variable is less than 0.05, namely 0.007, so it can be said to have a significant effect on financial performance, the significance of the Capital Expenditure variable is less than 0.05, namely 0.000, it can be said to have a significant effect on financial performance.

Coefficient of Determination Test

Table 7 Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.643[a]	.413	.407	.07449

Source: Processed data using SPSS 25

Based on Table 7, the coefficient of determination value is 0.407, which shows that the research independent variable can have an influence on the dependent variable by 40.7% and other factors are influenced by 59.3%.

F Test

Table 8 F Test

Model		F	Sig.
1	Regression	65,527	0,000

Source: Processed data using SPSS 25

Table 8 shows a significance value of 0.000 < 0.05, so it can be said that there is a suitability of the model between the General Allocation Fund and Capital Expenditure variables and the Regional Government Financial Performance Variable.

T Test

Table 9 T Test
Coefficients

Model		t	Sig.
1	(Constant)	10.922	.000
	General Allocation Funds	-2.718	.007

	Capital Expenditure	11.107	.000

Source: Processed data using SPSS 25

Based on Table 6, the significance value of the General Allocation Fund variable is <0.05, which is 0.007. This means that the General Allocation Fund (X_1) has a positive influence on the financial performance of regional governments (Y). Meanwhile, the significance value of the Capital Expenditure variable is <0.05 which is 0.000. This means that capital expenditure (X_2) has a negative effect on regional government financial performance (Y). So it can be concluded that the first and second hypotheses are accepted.

The Influence of General Allocation Funds on Regional Government Financial Performance

This research shows that the general allocation fund variable has a significant negative influence on financial performance. This occurs due to the high dependence on general allocation funds which are one of the sources of income in the Regency/City of East Java Province. Of course, this dependence has a negative impact on financial performance. High general allocation funds make a region less able to develop its regional resource potential, resulting in a decline in financial performance. The results of this research are in line with research by Fatmawati & Omega (2020) and Sugiyanto & Musfirati (2021).

The Influence of Capital Expenditures on Regional Government Financial Performance

The capital expenditure variable has a significant positive influence on financial performance. This means that capital expenditure is allocated for facilities, asset maintenance and regional development. By efficiently managing capital expenditure, you can increase sources of income so that you can improve financial performance. The results of this research are in line with research by Prastiwi & Aji (2020) and Digdowiseiso et al., (2022).

CONCLUSION

Based on the research results above, the conclusion of this research is that the DAU variable has a significant negative effect on the financial performance of local governments. This means that the higher the value of the General Allocation Fund (DAU) indicates high dependence on central government funds resulting in low financial performance. Meanwhile, the capital expenditure variable has a positive effect on local government financial performance. This means that allocating capital expenditure such as infrastructure development can improve the financial performance of local governments. This research is expected to be useful as material for evaluating financial management which can influence the level of financial performance of the regional government of East Java Province.

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