

# The Effect of Capital Expenditure, Balanced Fund (TKDD), And Regional Original Revenue (PAD) on the Regional Financial Performance of Malang Regency

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**Abstract**— The purpose of this study is to examine and provide empirical evidence on the influence of capital expenditure, balanced fund (TKDD), and PAD on the financial performance of local governments in Malang Regency. This study uses a quantitative approach, with regional financial performance as the dependent variable, while capital expenditure, TKDD, and PAD as independent variables. The results of this study are: 1) Capital expenditure has no effect on regional financial performance; 2) TKDD has no effect on regional financial performance; 3) PAD has an effect on regional financial performance; 4) Capital expenditure, TKDD, and regional original income simultaneously have an effect on regional financial performance.

**Keywords**— Regional Financial Performance, Capital Expenditure, Balanced Fund, Regional Original Revenue.

## I. INTRODUCTION

The success of regional governments in implementing autonomy can be seen from regional financial performance, a key indicator for assessing the effectiveness and efficiency of regional financial management in achieving development goals. Measuring regional financial performance will serve as an indicator for improving performance, particularly in the area of regional government finances, in the coming period (Fathah, 2017).

Regional government financial performance can be evaluated through financial report analysis using a financial ratio approach, as done by Magfira (2022) using the regional independence ratio, and Andirfa et al. (2016) using the efficiency ratio, decentralization ratio, and effectiveness ratio (Tumija & Sinta, 2022). Meanwhile, factors influencing regional government performance include capital expenditures, balancing funds, and Regional Original Revenue (Noholo and Yusuf, 2016, N. Sari et al., 2020, and Niswani et al., 2022).

Capital expenditures are budget expenditures to acquire or add fixed assets and other assets that provide benefits for more than one accounting period and exceed the minimum capitalization limits for fixed assets or other assets set by the government (Christy and Ady, 2008). Balanced fund (TKDD) are a source of regional revenue derived from the State Budget (APBN). The term "balancing funds" encompasses the General Allocation Fund (DAU), the Special

Allocation Fund (DAK), and the Revenue Sharing Fund (DBH), which has been changed to Transfers to Regions and Village Funds (TKDD). Tanda Setiya & Budi Waluyo (2021) state that TKDD serves as an instrument of fiscal decentralization under the direct control of the central government and reflects the transfer fund system that is part of the decentralization design in Indonesia. Regional Original Income (PAD) is a source of income derived from regional taxes, levies, and the results of natural resource management (Putra et al., 2024). PAD is an important element in influencing the APBD, because when the PAD level increases, regional dependence on the central government will decrease (N. Sari et al., 2020).

Several studies have yielded mixed results regarding local government financial performance. Ningrat & Supadmi (2019) found that local government financial performance is positively and significantly influenced by local revenue, but this contrasts with research by Machmud & Radjak (2018), which showed that PAD has no partial effect on local government financial performance. Wahyudin and Hastuti's (2020) study, which took a different approach, discovered that TKDD have a beneficial impact on the financial performance of local governments. However, this finding contradicts research by Anggreni and Artini (2019), which showed that TKDD have no positive effect on local government financial performance. Another study by Sukma et al. (2021) found that capital expenditures have an effect on local government financial performance. These results contradict research by Prastiwi and Aji (2020), which found that capital expenditures have no effect on local government financial performance.

Previous studies found inconsistencies in the research results regarding the influence of capital expenditure, balanced fund (TKDD), and PAD, on the financial performance of local governments, so this study was conducted to re-examine and provide new empirical evidence in Malang Regency.

## II. LITERATUR REVIEW

### *Regional Financial Performance*

According to Halim (2007), regional government financial performance is a benchmark for assessing a region's capability in implementing regional autonomy. In assessing

past performance, various financial performance analyses are used to determine future performance capabilities (Nugroho & Rohman, 2012). Regional financial performance illustrates the level of achievement of regional government work results, which includes regional revenues and expenditures through a financial system regulated by policies and applicable laws and regulations during a budget period (Ariska, 2021). Regional financial performance reflects the results of regional government activities in realizing regional goals, visions, and missions, which are assessed through financial aspects based on financial reports prepared by the regional government (Sari, 2016).

*Effect of Capital Expenditure on Regional Government Financial Performance*

Capital expenditure management is one aspect of regional financial management, which must be implemented in an orderly manner, in accordance with applicable legal provisions, effectively, efficiently, economically, transparently, and responsibly, while adhering to the principles of justice and fairness, and ensuring that the results bring real benefits to the community (Halim, 2014). The amount of capital expenditure reflects the amount of infrastructure and facilities successfully built by the regional government. The financial success of the regional government increases with the amount of development that is completed. According to studies conducted by Niswani et al. (2022), regional financial performance is impacted by capital expenditure variables.

*Effect of Balanced Fund (TKDD) on Regional Government Financial Performance*

The Balanced Fund (TKDD) is a form of financial balance between the central and regional governments. It serves as a primary source of revenue and plays a crucial role in regional financial implementation. The higher the TKDD received by a regional government, the greater its financial capacity, and plays a crucial role in improving regional financial performance. Research by Maulina & Alkamal (2021) shows that the balanced fund variable influences regional financial performance.

*Effect of Regional Original Revenue (PAD) on Regional Government Financial Performance*

Regional Original Revenue (PAD) is regional income derived from Regional Taxes, Regional Levies, the management of separated regional natural resources, and other legitimate Regional Original Revenues, which aim to provide regions with flexibility in raising funds for the implementation of regional autonomy as a manifestation of the principle of decentralization (Law No. 33 of 2004).

The ability of regional governments to optimize PAD will directly impact regional financial stability. The more optimal the PAD obtained by regional governments, the better the regional financial condition, enabling regions to achieve their goals of public welfare. Research by Wahyudin (2020) states that PAD influences regional financial performance.

III. METODOLOGY

This study used a quantitative approach to analyze the influence of capital expenditure, balanced fund (TKDD), and Regional Original Revenue (PAD) on regional financial performance in Malang Regency. Multiple linear regression analysis was conducted after conducting classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. Regional financial performance served as the dependent variable, while capital expenditure, TKDD, and PAD served as the independent variables. The data used in this study were secondary quantitative data obtained from official publications of government agencies related to the research.

IV. RESULT AND DISCUSSION

*Normality Test*

The normality test in this study used the One Sample Kolmogorov Smirnov test, the results are shown below:

TABLE 1. Normality Test

		Unstandardized Residual
N		14
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	0.578469
Most Extreme Differences	Absolute	.126
	Positive	.126
	Negative	-.122
Test Statistic		.126
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

a. Test distribution is Normal.  
b. Calculated from data.  
c. Lilliefors Significance Correction.

The results of the One Sample Kolmogorov Smirnov test obtained an Asymp.Sig (2-tailed) value of 0.200. This value indicates that the significance value is more than 0.05 (0.200 > 0.05), which means that in this study the variable data used have been normally distributed.

*Heteroscedasticity Test*

The heteroscedasticity test was carried out by looking at the scatterplot graph and the following results were obtained:

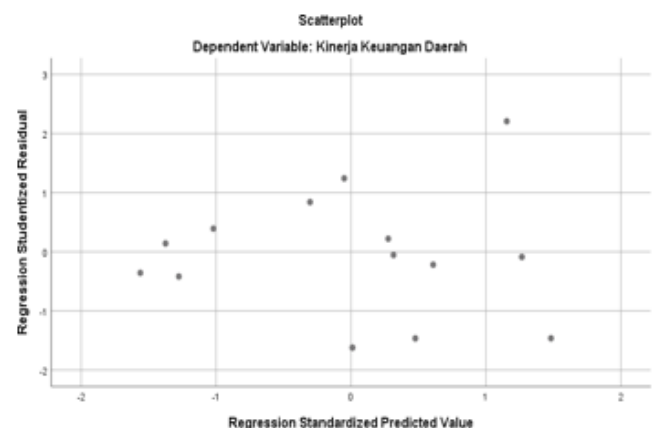


Figure 1. Heteroscedasticity Test

Based on the scatterplot graph, it shows that the distribution pattern of the points has spread both above and below the number 0 on the Y axis. This shows that the regression model in this study does not have heteroscedasticity problems and is suitable for use.

**Multicollinearity Test**

Classical Assumption Test A regression model is free from multicollinearity if the VIF (Variance Inflation Factor) value of each independent variable is less than 5 and the tolerance value is close to 1. The VIF results are presented as follows:

TABLE 2. Collinearity Test

Model	Collinearity Statistic	
	Tolerance	VIF
Capital Expenditure	.459	2.178
TKDD	.140	7.152
PAD	.153	6.541

Based on the results of the multicollinearity test above, it can be seen that each variable obtained a tolerance value of more than 0.10 and a VIF value of less than 10. Therefore, it can be stated that the regression model in this study does not have a multicollinearity problem and is suitable for use.

**Autocorrelation Test**

The autocorrelation test in this study used the Durbin Watson test and the following values were obtained:

TABLE 3. Autocorrelation Test

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.989 <sup>a</sup>	.978	.972	.65956	1.965
a. Predictors: (Constant), Capital Expenditure, TKDD, PAD					
b. Dependent Variable: Regional Financial Performance					

The Durbin Watson value is 1.965. This value indicates that  $dU < DW < (4-dU)$ , or can be written as  $1.7788 < 1.965 < (4 - 1.7788)$ . Therefore, it can be stated that the regression model in this study does not experience autocorrelation and is suitable for use.

**Multiple Linear Regression Analysis**

From the results of data processing using computer assistance from the SPSS 29 for Windows program, the analysis results were obtained as in table 4 below.:

TABLE 4. Multiple Linear Regression Analysis

Variable	Regression Coefficient	t	Sig.	Result
Capital Expenditure (X <sub>1</sub> )	0,002	1,007	0,338	Not Significant
TKDD (X <sub>2</sub> )	-0,001	-1,770	0,107	Not Significant
PAD (X <sub>3</sub> )	0,190	9,587	0,000	Significant
Constant		6,768		
R		0,989		
Adjusted R Square		0,972		
F <sub>hitung</sub>		151,077		
Sig. F		0,000		

Based on the table 4 above, only one independent variables have a significant effect on dependent variable from these coefficients, the following regression equation is obtained:

$$Y = 6,768 + 0,002 X_1 - 0,001 X_2 + 0,190 X_3$$

The regression coefficient of the Capital Expenditure variable is 0,002 with the assumption that if the Capital Expenditure variable increases by one point, it can be predicted that the Regional Financial Performance variable will also increase by 0,002. The regression coefficient of TKDD is -0,001 with the assumption that if the TKDD variable increases by one point, it can be predicted that the Regional Financial Performance variable will decrease by 0,001. The PAD coefficient is 0,190 with the assumption that if the PAD variable increases by one point, it can be predicted that Regional Financial Performance will increase by 0,190.

**Discussion of Results**

**The Effect of Capital Expenditure on Regional Government Financial Performance**

The results of this study are inconsistent with those of Niswani et al. (2022), which found that capital expenditure had a positive and significant impact on regional financial performance in regencies/cities in Aceh Province from 2016 to 2020. However, these results align with those of Padang & Padang (2023), which found that capital expenditure had no impact on regional government financial performance in regencies/cities in North Sumatra Province from 2014 to 2021.

The proportion of capital expenditure in Malang Regency is low, disproportionate to personnel expenditure, goods and services expenditure, and other expenditures. The low proportion of capital expenditure can be influenced by several factors, such as limited regional revenue or shifting budget priorities (Mardiasmo, 2018). This is consistent with the conditions in Malang Regency, which has limited regional revenue. The relatively low realization of capital expenditure in Malang Regency can hamper infrastructure and public facility development and will impact the economy. This is why capital expenditure has not had a significant impact on regional revenues and can be said to have not been able to influence regional financial performance in Malang Regency.

**The Effect of Balanced Fund (TKDD) on Regional Government Financial Performance**

The results of this study are inconsistent with the research of Afia Maulina & Mustafa Alkamal (2021), which found that balancing funds had a positive and significant impact on regional government financial performance in North Sumatra Province from 2014 to 2018. However, these results align with the research of Niswani et al. (2022), which found that balancing funds had a negative and insignificant impact on regional financial performance in regencies/cities in Aceh Province from 2016 to 2020. Malang Regency has the highest TKDD realization rate in the Greater Malang area, this is because the amount of TKDD allocation is determined by factors such as the size of the target service area and the location or status of the area.

The high realization rate of TKDD in Malang Regency indicates that PAD is insufficient to meet development needs in the region. The actual accomplishment of TKDD in Malang Regency surpasses the budgeted funds. For instance, the actual expenditure for the TKDD in 2023 was 2.8 trillion rupiah, but the budgeted amount was 2.7 trillion rupiah.

The relatively high realization of TKDD in Malang Regency indicates that the Regency remains highly dependent on the central government. This is why TKDD has not had a significant impact on regional revenues, thus its effectiveness in boosting financial performance is considered weak, and it can be said that TKDD has not yet influenced regional financial performance in Malang Regency.

*The Effect of Regional Original Revenue (PAD) on Regional Government Financial Performance*

The results of this study are inconsistent with Andirfa et al.'s (2016) study, which found that PAD had a positive but insignificant effect on the financial performance of regencies and cities in Aceh Province from 2011 to 2013. However, these results align with Ariska's (2021) study, which found that PAD had a positive and significant effect on regional financial performance in regencies/cities in North Sumatra Province from 2017 to 2020.

Malang Regency can be said to be able to optimally realize its PAD. This indicates that Malang Regency has utilized its regional potential. In accordance with what Saragih & Siregar (2020) stated, the ability of a region to explore and utilize its potential plays a crucial role in increasing PAD, which ultimately contributes to overall revenue growth, thus enabling the regional government to reduce its dependence on financial assistance from the central government.

The exploration of tax and levy sources is a common problem faced by regions, which is one of the components of PAD that has not contributed significantly to overall PAD revenue (Halim, 2001). High PAD receipts can improve and maximize regional governments in developing their regions and will later have implications for their regional financial performance. Some of the Implications of PAD on regional financial performance include: (1) Fiscal Independence: High PAD can increase the region's ability to finance operational and development activities without relying too much on central government transfer funds (Mardiasmo, 2018); (2) Increased Public Investment: High PAD allows budget allocation for investment in leading sectors, which will later encourage economic activity and increase tax revenue; (3) Regional Financial Stability: Increasing PAD can create good financial stability, because regions have more diverse sources of revenue. This is important to maintain the continuity of development, or even when transfer funds from the government decrease (Mardiasmo, 2018).

*Effect of Capital Expenditure, TKDD, and PAD on Regional Government Financial Performance*

The results of this study align with those of Sari et al. (2020) who found that Capital Expenditure, TKDD, and PAD simultaneously significantly influenced regional financial performance in North Sumatra Province from 2014 to 2017. Agency theory, in the context of the Regional Budget (APBD), reflects the local government's commitment to meeting public expectations and needs through efficient revenue management and expenditure allocation. These results support the argument that sound APBD management (Capital Expenditure, TKDD, and PAD) reflects the government's ability to manage regional finances. Local governments, acting

as agents, are expected to optimize financial management transparently, thereby increasing public trust as principals.

The goal of sound and effective regional financial management is to create increased community welfare (Jani et al., 2021). This not only contributes to improving the regional economy but also indicates improving regional financial performance. This is what causes Capital Expenditure, TKDD, and PAD to have a significant impact on regional revenue, so that its effectiveness in driving financial performance is considered high and it can be said that Capital Expenditure, TKDD, and PAD can influence regional financial performance in Malang Regency.

V. CONCLUSION

Based on the results of the analysis and discussion, the following conclusions can be drawn::

1. Capital expenditures did not affect the regional financial performance of Malang Regency between 2010 and 2023. The proportion of capital expenditures in Malang Regency was low, disproportionate to personnel expenditures, goods and services expenditures, and other expenditures.
2. Balanced Fund (TKDD) did not affect the regional financial performance of Malang Regency between 2010 and 2023. The relatively high realization of TKDD in Malang Regency indicates that Malang Regency remains highly dependent on the central government.
3. Regional Original Revenue (PAD) affected the regional financial performance of Malang Regency between 2010 and 2023. High levels of Regional Original Revenue (PAD) can enhance and maximize regional government development, ultimately impacting regional financial performance.
4. Capital expenditures, TKDD, and PAD simultaneously affected the regional financial performance of Malang Regency between 2010 and 2023. Good management of the APBD (Capital Expenditure, TKDD, and PAD) illustrates the government's ability to manage regional finances.

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