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Factors Determining Financial Performance in Local Government (An Empirical Study on Regencies/Cities Across Indonesia for the Years 2017-2019)".

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A R T I C L E I N F O

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A B S T R A C T

This study aims to identify the determine of financial performance on Local Government in Indonesia 2017-2019. This study used five variables, namely local taxes; regional retribution; capital expenditures; asset turnover; and leverage. This research is a quantitative study. The performance measure used in this study is the ratio of regional independence. The sample used in this study were 1479 which consisted of 493 data from districts and cities in Indonesia. Sampling technique with method purposive sampling. The data source in this study was secondary data where the data obtained were in the form of documents. Testing the data using multiple linier regression. The results show that regional retribution, capital expenditure, and asset turnover have a significant effect to the financial performance on local government. Whereas the local taxes and leverage have no significant effect to financial performance on local government.

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INTRODUCTION

Since the introduction of regional autonomy, the central government has delegated authority to local governments to oversee and manage their own administrative matters in line with the principles of autonomy and co-administration. The Law on Regional Autonomy provides broader, tangible, and accountable authority to local governments. The implementation of regional autonomy offers significant opportunities for regions to improve their financial performance. True autonomy will only occur if local governments also have strong fiscal resilience, indicated, among other things, by autonomous local revenue. Therefore, the strengthening of local taxing power, as mandated by the Republic of Indonesia Law No. 28 of 2009 on Regional Taxes and Regional Levies, should be a momentum to enhance the resilience of local government revenue, improve relations between local governments, and utilize local economic resources.

The financial performance of local governments is a key factor in evaluating a region's capacity to manage its own affairs, particularly in terms of local finances (Florida, 2007). In relation to the success of regional autonomy, strong financial performance is essential for funding regional activities by leveraging local resources. To assess the realization of budget allocations by local governments, they report these realizations in the Regional Government Implementation Report (RGIR). According to a study by Susanti (2019), Regional Financial Independence (fiscal autonomy) reflects the ability of local governments to finance activities undertaken by the government independently. Regional financial independence is demonstrated by the ratio of Regional Generated Revenue (RGR) compared to regional income from other sources. Therefore, a higher independence ratio indicates a lower dependence of the local government on external aid. Efforts to increase local own revenue, whether sourced from local taxes, regional levies, or other legitimate sources of RGR, need to be continuously pursued to support regional expenditures. This aligns with Alfarisi's (2015) research, which found that local taxes and levies significantly impact the financial performance of local governments in regencies/cities in West Sumatra Province and supports the statistical results of Saputra's (2016) study, which states that local taxes and levies positively affect financial performance in regencies/cities across Indonesia.

Mardiasmo (2013) states that local taxes are taxes determined by local governments through local regulations (Perda), where the authority to collect them is exercised by the local government in implementing the administration and development of the region (Nggilu,2016). The ability of regions to provide funding from local sources heavily depends on their ability to realize this economic potential into economic activities that can generate funds for sustainable regional development (Darwanto & Yustikasari,2007). Ardhi (2011) states the influence of local government financial ratios on local government capital expenditures in regencies/cities in Central Java. The analysis results show that the level of regional financial independence does not significantly positively affect capital expenditures, efficiency does not affect capital expenditures, SiLPA significantly positively affects capital expenditures, and capital expenditures negatively and significantly affect economic growth. According to Hadi (2010), leverage is the ability of local governments to pay off their long-term obligations. Leverage is a comparison

between debt and equity; the more debt an entity has, the lower its financial independence. This research was conducted by analysing related data in each regency/city in Indonesia from 2017 to 2019. It is hoped that this research will provide useful information that can be utilized optimally.

THEORETICAL REVIEW

Agency theory, according to Anthony and Govindarajan as cited in Siagian (2011:10), describes the relationship or contract between a principal and an agent. The principal employs the agent to perform tasks in the interest of the principal, including delegating decision-making authority from the principal to the agent. Agency theory can be applied in public organizations, such as local governments, where the principal represents the legislative body (the people's representatives), and the agent represents the executive branch (local government). In public sector organizations, this agency relationship is also evident in budget preparation, which is submitted to the central government. After the central government approves the budget, the local government implements activities based on the prepared budget. Ultimately, the local government must account for the budget realization to the central government. In addition to the relationship between the central and local governments, there is also a relationship between the legislative and executive branches, where the executive acts as the agent, and the legislative as the principal (Halim, 2014). The relationship between agency theory and this research is that the government, acting as the agent (local government financial manager), must implement specific strategies to provide the best service to the public, who act as the principal. The principal naturally expects good performance from the agent, and this performance can be observed through the use of leverage by local governments.

Regional Government Financial Performance

Halim (2012:232) defines "Local financial performance as one measure that can be used to assess a region's ability to implement regional autonomy." Performance measurement aims to effectively communicate strategy, performance achievement indicators for both financial and non-financial aspects, inform managers in decision-making, and measure individual and group satisfaction levels rationally (Mardiasmo, 2019).

Regional Tax

According to Law No. 28 of 2009 on Regional Taxes and Levies (RTL), Article 1, Paragraph 10, a "regional tax," or simply tax, is a mandatory contribution owed to the region by individuals or entities, enforced by law, without direct compensation, and intended to meet regional needs for the maximum benefit of the people. Resmi (2017:7) further explains that regional taxes are collected by local governments, either at the provincial (Provincial Tax) or regency/city (Regency/City Tax) level, and are used to fund the operations of those local governments.

Regional Levies

Regional levies are fees charged by local governments for services or specific permits provided to individuals or entities. Siahaan (2010) explains that levies are compulsory payments made by citizens to the government in exchange for certain

services offered directly to those individuals. These services are considered direct because only those who pay the levy benefit from the government's services.

Capital Expenditure

According to Sudika and Burdiartha (2017), capital expenditure is a component of direct expenditure in the government's budget that results in output in the form of fixed assets. Capital expenditure is generally allocated as a means of regional development so that the public can benefit from regional development. Udoka and Anyingang (2015) state that capital expenditure has a significantly positive effect on economic growth and development. The government should increase its spending on public expenditure components, which in turn will encourage investment.

Asset Turnover

According to Sawir (2005:17), Total Assets Turnover (TATO) is the speed at which total assets are turned over within a specific period. Meanwhile, Prastowo (2011:94) states that Total Asset Turnover follows asset activity and measures a company's ability to generate sales through the use of assets. This ratio also measures how efficiently these assets have been utilized to generate income. A low Total Assets Turnover indicates that the company has placed too much of its funds in basic assets, while a high Asset Turnover shows that the government uses few assets or that the assets used are outdated.

Leverage

According to Ayuningsih (2016), leverage is an indicator that shows the region's dependence on creditors. This is evident in the amount of debt the region has, which indicates its reliance on external parties. Fixed costs incurred from using funds, such as bond debt, must cover fixed expenses in the form of interest, while the use of funds from preferred shares must cover fixed costs in the form of dividends. The leverage of a region can be seen from the ratio of total debt to the average equity of the region. Leverage is considered important because the debt ratio allows creditors to assess the local government's ability to repay debt (Artha, Basuki, & Alamsyah, 2015).

Theoretical Framework

Based on the literature review, the conceptual framework for this research is illustrated in the following diagram:

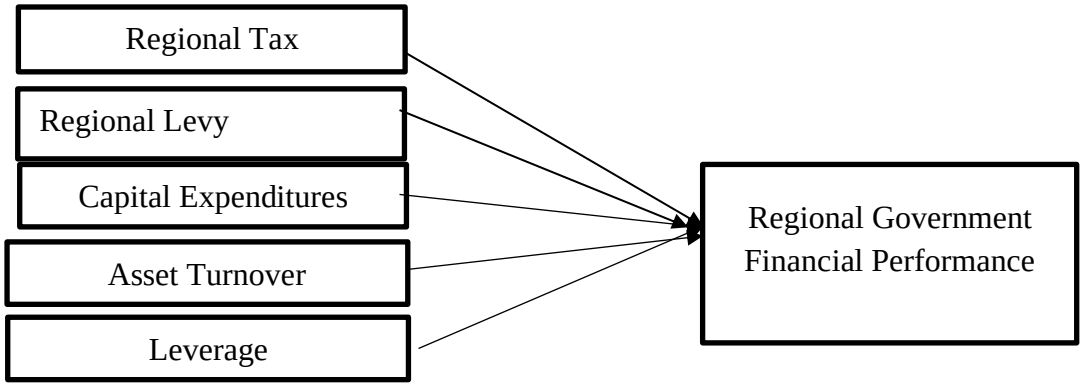

Diagram 1: Research Conceptual Framework

Hypothesis Development

The Influence of Regional Tax on Regional Government Financial Performance

Regional tax is one of the elements of RREB revenue aside from balancing funds. Regional tax comes from various types of taxes as listed in Law No. 28 of 2009, Article 2, Paragraph 2, as follows: " Regency or city taxes include various types, such as hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, tax on non-metal minerals and rocks, parking tax, groundwater tax, swallow nest tax, rural and urban land and building tax, and fees for acquiring land and building rights**."** Regional Tax, which is one of the important sources of RGR, will significantly impact financial performance. Based on the above explanation, the following hypothesis can be drawn:

H1: Regional Tax affects regional government financial performance.

The Influence of Regional Levies on regional Government Financial Performance

Rukmana's (2013) research indicates that regional levies, a key source of Regional Government Revenue (RGR), serve as an important measure of local government financial performance. Local governments are encouraged to better utilize their local resources to meet the financial demands of governance and development. Florida's (2007) study also highlights that regional levies have a significant impact on financial performance.

H2: Regional Levies Affects Regional Governments Financial Performance

The Impact of Capital Expenditure on Regional Government Financial Performance

Nugraheni and Adi (2020) interpret that the size of capital expenditure allocation has not yet functioned optimally to improve the financial performance of local governments. Their research using meta-analysis samples indicates no impact of capital expenditure on the financial performance of local governments. This proves that the amount of expenditure made by the government does not affect the financial performance of local governments. Poor realization causes programs designed by local governments to not be optimally implemented.

H3: Capital expenditure affects regional governments financial performance

The Impact of Asset Turnover on Regional Government Financial Performance

Based on research conducted by Steven McGowen (1983) related to financial indicators and government financial trends using three variables, the results indicate that local government financial trends are influenced by many factors such as population size and sources of revenue for local governments. If public service demand increases without a corresponding increase in local government finances, it will reduce the quality of services provided, which requires effective financial indicators for local governments.

H4: Asset turnover affects regional governments financial performance

The Impact of Leverage on Regional Government Financial Performance

Sudarmadji and Sularto (2007) reveal that leverage is a measure used to determine the extent of assets financed by debt. Sesotyaningtyas (2012) states in their

research that leverage has a simultaneous effect on local government financial performance. The higher the leverage value, the worse the performance. Conversely, lower leverage indicates better performance. Sumarjo (2010) proves that leverage affects local government financial performance. The debt-to-equity ratio can be used to measure how much of the region's assets are burdened by debt by comparing total debt to total assets. Based on the description above, the hypothesis in this research is:

H5: Leverage affects regional governments financial performance

Previous Research

Previous research related to this study was conducted by several researchers as follows. Eviniar Nugraheni and Priyo Hari Adi (2020) in their study titled "Factors Affecting regional Government Financial Performance: A Meta-Analysis Study" concluded through meta-analysis techniques that there are five factors: regional wealth, regional government size, leverage, regional tax revenue, and BPK audit findings, which determine performance. This study shows that higher levels of regional wealth, government size, leverage, and regional tax revenue positively impact local government financial performance. Meanwhile, BPK audit findings show a negative impact on local government financial performance. Mirna Sesotyaningtyas' (2012) research, titled "The Impact of Leverage, Legislative Size, Intergovernmental Revenue, and Regional Tax Revenue on Local Government Financial Performance," reveals that leverage, legislative size, intergovernmental revenue, and regional tax revenue collectively influence local government financial performance based on efficiency ratios. However, when examined individually, leverage, legislative size, and intergovernmental revenue do not have a significant effect on local government financial performance according to efficiency ratios, while regional tax revenue negatively impacts financial performance based on those same ratios.

John D. Wong's research, titled "The Fiscal Impact of Economic Growth and Development on Local Government Revenue Capacity," indicates that higher property tax levies are negatively correlated with tax capacity. The establishment of new businesses in the service industry appears to enhance regional government tax capacity, whereas growth in agriculture, manufacturing, and retail sectors does not have a similar effect. Research by Olurankinse Felix titled "Analysis of the Effectiveness of Capital Expenditure Budgeting in The Local Government System of Ondo State, Nigeria" shows a positive and significant relationship between budgeted capital and actual expenditure. The implication is that an increase in budgeted Acapital will lead to an increase in capital expenditure for infrastructure. The research by Patricia M. Firfield and Teri Lombardhi Yohn, titled "Using Asset Turnover and Profit Margin to Forecast Changes in Profitability," shows that breaking down changes in net operating profit offers insights into future profitability. It highlights how asset turnover and profit margins can be utilized to predict future profitability and serve as benchmarks for evaluating the impact of changes in these ratios. Research by Salman Alfaris H titled "The Effect of Regional Taxes, Regional Retribution, and Equalization Funds on Local Government Financial Performance" shows that Alfaris (2015) used a population of all provincial

governments in West Sumatra with a sample size of 19 regencies/cities. The method used is multiple regression analysis. The results show that regional taxes significantly positively affect local government financial performance. High regional tax revenue indicates good government financial performance.

METHODOLOGY

Type of Research

This study uses a quantitative method as an approach to analyse research problems, as it uses numerical data as indicators of variables to answer research questions. According to Sugiyono (2017:15), quantitative methods are based on positivism and are used to research a specific population or sample, with data collection using research instruments and data analysis being quantitative or statistical, aiming to describe and test hypotheses.

Operational Definition of Variables and Measurement

In this study, the independent variables (X) used are regional taxes, regional levy, capital expenditure, asset turnover, and leverage, with the dependent variable (Y) being local government financial performance. Each research variable is operationally defined as follows:

Dependent Variable

According to Sugiyono (2017:39), the dependent variable is often referred to as the output variable, criterion, or consequence. In Indonesian, it is often called the bound variable. The dependent variable is influenced or is a result of the independent variable. The dependent variable in this study is:

1. Local Government Financial Performance (Y)

   The dependent variable uses local government financial performance proxied by the regional autonomy ratio. The regional autonomy ratio measures how much the local government relies on external funding sources such as from the central government or loans (Makin et al., 2013). Darwanis and Saputra (2014) state that a high regional autonomy ratio indicates a lower dependence on external funding sources, meaning the government is more autonomous. Conversely, a lower ratio indicates higher dependence. This ratio is calculated by dividing total RGR (Original Local Revenue) by total revenue (Halim, 2002:128):

$$Independence\ Ratio. = \frac{Regional\ Generated\ Revenue}{Total\ Revenue}$$

Independent Variables

Independent variables are those that influence or cause changes in the dependent variable. The independent variables in this study are:

1. Regional Taxes (RT)

   Regional taxes are mandatory payments made by individuals or entities to local governments, as required by law, without direct compensation. These taxes are used to fund the administration and

development of the regional government. The amount of regional taxes can be found in the Regional Revenue and Expenditure Budget (RREB) under the Original Regional Income section.

2. Regional Levy (RL)

   Regional levy is a local fee charged for services or specific permits provided by the local government for personal or corporate purposes. The number of regional levies can be found in the Regional Revenue and Expenditure Budget (RREB) under Regional Original Income.

3. Capital Expenditure (CE)

   According to Ayinde et al. (2015), capital expenditure activities can be considered as investments made by local governments, although these activities are not aimed at seeking profit, and the success of capital expenditure is measured by the quality provided as expected. This study uses capital expenditure data from the previous year.

4. Asset Turnover (AT)

   According to Suyono (2010), asset turnover is the ratio of original local revenue to total assets owned by the local government. This ratio reflects the ability of the local government to generate original local revenue using the total assets it possesses. A higher ratio indicates better performance in utilizing assets to generate revenue. According to Suyono (2010), the formula for calculating this ratio is:

$$Assets\ Turnover. = \frac{Regional\ Generated\ Revenue}{Total\ Assets}$$

5. Leverage (L)

   Research by Choiriyah (2010) reveals that leverage is the proportion of total debt to average equity. Leverage reflects the capital structure of an organization and the risk of uncollectible debt (Perwitasari, 2010). Perwitasari (2010) indicates that local governments with high leverage have poor performance due to their primary funding sources being external. This study uses data from the previous year's balance sheet. The financial leverage ratio shows how much debt is used in the capital structure. Leverage can be measured using the debt-to-assets ratio (DAR) by comparing total debt to total assets presented in the balance sheet. Debt to Assets Ratio (DAR) is calculated using the formula:

$$Debt\ Assets\ Ratio. = \frac{Total\ Debt}{Total\ Asset}$$

Population, Sample, and Sampling Technique

The population refers to the generalization area consisting of objects or subjects with certain quantities and characteristics specified by the researcher to be studied and subsequently concluded (Sugiyono, 2017:132). The population in this study consists of financial reports of regional governments in Indonesian

regencies/cities for the years 2017, 2018, and 2019. The sampling technique used in this study is purposive sampling, which is a technique of taking samples with specific considerations. The samples taken for this study use Regional Revenue and Expenditure Budget (RREB) Report and Balance Sheets from regencies/cities in Indonesia. Out of 493 regencies/cities in Indonesia, a sample of 1479 was obtained, representing data over 3 years from 542 regional governments in Indonesia.

Data and Data Sources

This study uses secondary data sources. Secondary data sources are those that do not provide information directly to the data collector. This secondary data can be further processed from primary data presented in another form or from other people (Sugiyono, 2021:225). The data used comes from Regional Revenue and Expenditure Budget Reports (RREB) from 493 regencies/cities from 2017 to 2019, Regional Government Financial Reports (RGFR) from 2017 to 2019, prepared based on Statement of Government Accounting Standards (SGAS) Number 1 on Government Financial Report Preparation, and sourced from the Ministry of Finance Directorate General of Financial Balance.

Data Collection Method

The documentation data collection method is a technique of gathering and analysing documents, both written and electronic (Sukmadinata, 2012:221). The data collected is sourced from reports on Regional Revenue and Expenditure Budget (RREB) and Balance Sheets from 2017-2019 published by the Directorate General of Financial Balance (DGFB) of the Ministry of Finance of the Republic of Indonesia and Regional Government Financial Reports (RGFR) and other related sources.

Data Analysis Method

The data analysis performed is quantitative analysis expressed with numerical calculations using statistical methods assisted by the EViews program. There are several stages in analysing this data, starting with descriptive statistics. The first stage involves data input, followed by model estimation. There are three panel data model estimations or regressions: common effect model, fixed effect model, and random effect model. Subsequently, determining the appropriate panel data estimation involves using the Chow test and Hausman test.

Descriptive Statistical Analysis

Descriptive statistical analysis aims to provide an overview of the variables in the study. According to Aditya (2015), "descriptive statistics provide an overview of the variables in the study based on minimum values, mean values, and standard deviations."

Regression Model Estimation

There are three panel data model estimations or regressions: common effect model, fixed effect model, and random effect model. According to Zulfikar, determining the appropriate panel data estimation model can use:

1. Chow Test

   The Chow test determines the common effect or fixed effect model is more suitable for estimating panel data. If the Chow test result shows Prob.> 0.05, then the Common Effect model is chosen; otherwise, if Prob.< 0.05, the Fixed Effect Model is selected.

2. Hausman Test

   The Hausman test is used to determine whether the Fixed Effect Model or the Random Effect Model is more appropriate for analysing panel data. If the Hausman test result shows Prob.> 0.05, then the Random Effect (RE) model is chosen; otherwise, if Prob. < 0.05, the Fixed Effect Model is most appropriate for estimating panel data.

Classical Assumption Test

This test is conducted to check the quality of data to ensure its validity and avoid estimation bias. The classical assumption tests used in this study include normality test, multicollinearity test, and heteroscedasticity test.

1. Normality Test

   The normality test is used to determine whether the data is normally distributed. In this normality test, the Central Limit Theorem (CLT) is applied, which states that if the sample size (n>30), the normality assumption can be ignored (Gujarati, 2003). In this study, a sample size of 1479> 30 is used. Therefore, according to the CLT, most statisticians consider a sample size of 30 or more to be sufficiently large and close to a normal distribution.

2. Multicollinearity Test

   Multicollinearity refers to the condition of linear relationships among independent variables. This test aims to check whether there is high or perfect correlation among independent variables in the regression model. If a high correlation among independent variables is found, multicollinearity is indicated. The result of the multicollinearity test is shown by the correlation value among independent variables < 0.90, indicating no multicollinearity problem (Ghozali, 2013).

3. Heteroscedasticity Test

   The heteroscedasticity test is employed to assess whether there are deviations from classical assumptions. For a regression model to be valid, it must be free from heteroscedasticity. In this study, the White test is used, with res2 calculated as resid^2. The presence of heteroscedasticity is determined based on the value of Prob. If the chi-square probability value exceeds 0.05, the data is deemed free from heteroscedasticity.

4. Autocorrelation Test

   According to Santoso (2011:110), the autocorrelation test aims to check whether there is a correlation between the disturbance errors at period t and the disturbance errors at period t-1 (previous). This study uses the Serial Correlation (LM Test). If the Durbin-Watson statistic falls between dU and 4-

dU, there is no autocorrelation or the data is free from autocorrelation (Winarno, W.W. 2017).

Hypothesis Testing

Hypothesis testing is conducted using partial tests (t-tests), simultaneous tests (F-tests), and coefficient of determination (R Squared).

1. Multiple Linear Regression Analysis

   The analysis used is multiple linear regression analysis to test the effect of more than one independent variable on the dependent variable, assuming other variables are constant (Ghozali, 2011:96). The multiple linear regression model in this research is shown in the following equation:

   The research model to test the hypothesis is as follows:

   $GFP = \alpha + \beta 1RT1 + \beta 2RL2 + \beta 3CE3 + \beta 4AT4 + \beta 5LV5 + e$

   Description:

   GFP: Government Financial Performance

   α: Constant

   β1RT1: Regional Tax

   β2RL2: Regional Levy

   β3CE3: Capital Expenditure

   β4AT4: Asset Turnover

   β5LV5: Leverage

2. F-Test (Simultaneous)

   According to Ghozali (2011:98), the simultaneous significance test, or F-test, aims to determine whether all the independent variables in the model have a joint effect on the dependent variable. In EViews, the results of the F-test can be found in the F-statistic and/or Prob (F-statistic). To interpret Prob (F-statistic), it should be compared to the significance level, α. The decision criteria are as follows: a. If Prob (F-statistic) > 0.05, it indicates that all independent variables collectively have an effect on the dependent variable. b. If Prob (F-statistic) < 0.05, it suggests that all independent variables do not collectively influence the dependent variable.

3. T-Test (Partial)

   The T-test is a method used to analyse independent samples by comparing the means of two groups. In hypothesis testing with the T-test, the significance level of the t-statistic obtained from the test results is compared with the significance level set for the study. The T-test helps determine whether to accept or reject a hypothesis. In this test, the Prob value is

compared to the significance level, α. If the Prob value > 0.05 and the calculated t-value < t-table value, the independent variable does not significantly affect the dependent variable. Conversely, if the Prob value < 0.05 and the calculated t-value > t-table value, the independent variable has a significant effect on the dependent variable.

RESULT AND DISCUSSION

Sample Description

This study investigates the factors that truly determine the financial performance of regional governments through an empirical study of regencies/cities across Indonesia for the years 2017-2019. The aim is to determine the impact of regional taxes, regional retributions, capital expenditures, asset turnover, and leverage on the financial performance of regional governments over three years. This study processes data using the EViews 10 program.

Table .1 Sample Selection Data

Information	Amount
Number of Regencies/Cities in Indonesia	508
Regency/City contained in the RREB Realization Report 2017-2019	508
Districts/Cities that do not meet the requirements to be used as samples (incomplete data)	15
Number of research samples	493

Data source: Data processing results, 2021.

The samples taken for this research were 493 regencies/cities from a total population of 508 regencies/cities in Indonesia. The selection of research objects was obtained from the criteria set by the researcher, namely complete data and information from the 2017 to 2019 RREB Realization Report. 15 districts/cities were not included in this research sample.

Data Analysis

Descriptive Statistics

This research examines the influence of Regional Taxes, Regional Levies, Capital Expenditures, Asset Turnover, Leverage in Indonesia. Empirical Study in Regencies/Cities throughout Indonesia from 2017 to 2019. The results of the descriptive statistical analysis can be seen in table 2 below.

Table 2. Descriptive Statistical Test Results

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
GFP	493	0.844732	0.004607	0.118820	0.096173

RT	493	4.217.319.93.1 86	27,630,520	119,699,271,810.84	352,003,798,006.58
RL	493	557.966.574.670	6,040,000	15,886,128646.77	27,894,667,244.49
C.E	493	2,517,891,658,246	45,531,533,345	324,065,143,067.73	210,976,037,549.83
AT	493	0.381202	0.001504	0.062897	0.046941
LV	493	0.272434	0.000000154	0.017456	0.023610

Data source: Secondary data processed using Eviews 10.

Based on the 2017-2019 Regional Revenue and Expenditure Budget (RREB) Realization Report, the highest Regional Government Financial Performance was in Badung Regency in 2017, namely 0.8444732. Meanwhile, the lowest Regional Government Financial Performance was in Sarmi Regency in 2017, namely 0.004607. Based on the 2017-2019 Regional Revenue and Expenditure Budget (RREB) Realization Report, the highest Regional Levy (RL) was in the City of Surabaya in 2017, namely IDR. 557.966.574.670. Meanwhile, the lowest was in Mamberamo Raya Regency in 2019, namely IDR 6,040,000.

Based on the 2017-2019 Regional Revenue and Expenditure Budget (RREB) Realization Report, the highest Capital Expenditure (CE) was in the City of Surabaya in 2018, namely IDR. 2,517,891,658,246. while the lowest was in Biak Numfor Regency in 2018, namely IDR. 45,531,533,345. Based on the Realization Report of the Regional Revenue and Expenditure Budget (RREB) and the 2017-2019 FY Balance, the highest *Asset Turnover* (AT) was in Gianyar Regency in 2019 at 0.381202. Meanwhile, the lowest was in Sarmi Regency in 2017, namely 0.001504.

Based on the Regional Revenue and Expenditure Budget Realization Report (RREB) and the 2017-2019 FY Balance Sheet, the highest *Leverage* (LV) was in Biak Numfor Regency in 2018, amounting to 0.272434. Meanwhile, the lowest was in Gayo Lues Regency in 2018, namely 0.000000514. Based on table 2, the *mean value* of Regional Government Financial Performance (GFP) is 0.118820 with a standard deviation of 0.096173. The *mean* value of Regional Tax (RT) is 119,699,271,810.84 with a standard deviation of 352,003,798,006.58. The mean value of Regional Levy (RL) is 15,886,128,646.77 with a standard deviation of 27,894,667,224.49. The mean value of Capital Expenditures (CE) is 324,065,143,067.73 with a standard deviation of 210,976,037,549.83. The mean Asset Turnover (AT) value is 0.062897 with a standard deviation of 0.046941. The mean Leverage (LV) value is 0.017456 with a standard deviation of 0.023610.

Regression Model Testing

The regression model test is used to determine a better model to use in estimating panel data.

1. Chow Test

The Chow test is used to determine whether the common effect is better at estimating panel data than the fixed effect model. The results of the Chow test can be seen from the Chi-Square cross section probability, if > 0.05, then choose the common effect.

Table 3 Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	45.740495	(492,981)	0.0000
Chi-square cross-section	4696.651042	492	0.0000

Data source: Secondary data processed by peeliti, 2021.

Based on the Chow test results in Table 3, it shows that the Chi-square cross-section probability is 0.000 < 0.05, it is found that the fixed effect model is most appropriate to use in estimating panel data.

2. Hausman Test

The Hausman test is used to determine whether the fixed effect model is better at estimating panel data than the random effect model. The results of the Hausman test can be seen from the probability of a random cross-section > 0.05, so choosing a random effect.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	187.541717	5	0.0000

Data source: Secondary data processed by researchers, 2021.

Based on the results of the Hausman test in table 4, it shows that the Chi-square cross-section probability is 0.000 < 0.05, it is found that the fixed effect model is most appropriate to use in estimating panel data.

Classical Assumption Test

The classical assumption test is used to determine whether the tested model meets classical assumptions. To fulfil these conditions, tests for normality, heteroscedasticity, multicollinearity, and autocorrelation must be conducted.

a. Normality Test

The normality test is used to determine whether the data follows a normal distribution. In this normality test, the researcher uses the Central Limit Theorem (CLT), which states that if the number of observations is sufficiently large (n > 30), then the normality assumption can be disregarded (Gujarati, 2003). The number n in this study is 1479 > 30. This indicates that the data can be considered normally distributed and can be called a large sample.

b. Heteroscedasticity Test

The heteroscedasticity test is conducted using the White test. Kristianto (2019) states that using the White test will result in a higher probability of Obs*R-Squared. To determine the presence of heteroscedasticity, the Obs*R-squared probability value must be compared to the significance level of alpha 5 percent. If the Obs*R-squared probability value is greater than 0.05 (5 percent significance level), then it can be concluded that heteroscedasticity is not present, and vice versa.

Table 5. Results of the Heteroscedasticity Test

Heteroskedasticity Test: White			
F-statistic	0.793253	Prob. F(20.1458)	0.7243
Obs*R-squared	15.92033	Prob. Chi-Square (20)	0.7216
Scaled explained SS	48.79669	Prob. Chi-Square (20)	0.0003

Based on Table 5, it can be seen that the Obs*R-squared probability value of 0.7216 is greater than 0.05, so it can be concluded that there is no heteroscedasticity in this study.

c. Autocorrelation Test

Table 6. Results of the Autocorrelation Test

F-statistic	237.2803	Durbin-Watson stat	1.983016
Prob(F-statistic)	0.000000		

Source: Secondary data processed using EViews 10.

The autocorrelation test used in this study is the Serial Correlation (LM test). From the LM test, if the Durbin-Watson stat lies between dU and 4-dU, then there is no autocorrelation or it is free from autocorrelation (Winarno, 2017). Based on the results of the autocorrelation test shown in Table 6, the Durbin-Watson stat value is 1.983016. Since dU (1.922) < DW (1.983016) < 4-dU (2.078), it can be concluded that there is no autocorrelation in this study.

d. Multicollinearity Test

The multicollinearity test is used to see if there is any correlation among the independent variables in this study. According to Gujarati (2012), a good multiple linear regression model is one where there is no correlation between the independent variables. Multicollinearity can be assessed through the correlation values between variables, with multicollinearity not occurring if the correlation values are below 0.90.

Table 7. Results of the Multicollinearity Test

	RT	RL	CE	AT	LV
RT	1.000000	0.817238	0.746369	0.495793	-0.044306
RL	0.817238	1.000000	0.691931	0.467623	-0.033505
CE	0.746369	0.691931	1.000000	0.356475	0.019267
AT	0.495793	0.467623	0.356475	1.000000	-0.029034
LV	-0.044306	-0.033505	0.019267	-0.029034	1.000000

Source: Secondary data processed using EViews 10.

Based on Table 7, the correlation values between the independent variables are all below 0.90, indicating that the independent variables are free from multicollinearity.

Hypothesis Testing

a. Analysis of Coefficient Determination

Cross-section fixed (dummy variables)			
R-squared	0.993327	Mean dependent var	0.118820
Adjusted R-squared	0.989946	SD dependent var	0.096173

Table 8. Fixed Effect Model Regression Results

Source: Secondary data processed by the researcher, 2021.

Based on Table 8, the Adjusted R-squared value is 0.9899 (98.99%), meaning that 98.99% of the variation in Local Government Financial Performance can be explained by Local Taxes, Local Levies, Capital Expenditures, Asset Turnover, and Leverage, while the remaining (100% - 98.99% = 1.01%) is explained by variables outside the model.

b. Multiple Linear Regression Analysis

Table 9. Multiple Linear Regression Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.046814	0.002423	19.31841	0.0000
RT	-1.315229	9.02E-15	-1.458886	0.1449
RL	1.409630	4.40E-14	3.201862	0.0014
CE	2.119849	4.11E-15	5.161315	0.0000
AT	1.031387	0.022284	46.28456	0.0000
LV	-0.022905	0.021554	-1.062679	0.2882

Data Source: Secondary data processed by the researcher, 2021.

Linear regression is used to see the extent of the influence of the independent variables on the dependent variable. Based on Table 9, the multiple linear regression equation in this study can be interpreted as follows:

GFP = 0.046814 – 1.31529RT + 1.409630RL + 2.119849CE + 1.031387AT – 0.022905LV

The panel data regression model used in this study employs the fixed effect model. In multiple regression, an analysis is conducted on the dependent variable and two or more independent variables, with this study using 5 independent variables. Based on the equation, the interpretation is as follows:

The constant value of +0.046814 indicates that if all independent variables are considered 0, then the Regional Government Financial Performance (GFP) would be 0.046814. The regression coefficient of Regional Taxes (RT) is -1.31529. This indicates that there is a relationship between Regional Taxes and Regional Government Financial Performance, where higher Regional Taxes will decrease Regional Government Financial Performance by 1.31529. Conversely, lower Regional Taxes will increase Regional Government Financial Performance. The regression coefficient of Regional Levies (RL) is +1.409630. This shows that there is a relationship between Regional Levies and Regional Government Financial Performance, where higher Regional Levies will increase Regional Government Financial Performance by 1.409630. Conversely, lower Regional Levies will decrease Regional Government Financial Performance. The regression coefficient of Capital Expenditures (CE) is +2.119849. This shows that there is a relationship between Capital Expenditures and Regional Government Financial Performance, where higher Capital Expenditures will increase Regional Government Financial Performance by 2.119849. Conversely, lower Capital Expenditures will decrease Regional Government Financial Performance. The regression coefficient of Asset Turnover (AT) is +1.031387. This indicates that there is a relationship between Asset Turnover and Regional Government Financial Performance, where higher Asset Turnover will increase Regional Government Financial Performance by 1.031387. Conversely, lower Asset Turnover will decrease Regional Government Financial Performance. The regression coefficient of Leverage (LV) is -0.022905. This indicates that there is a relationship between Leverage and Regional Government Financial Performance, where higher Leverage will decrease Regional Government Financial Performance. Conversely, lower Leverage will increase Regional Government Financial Performance.

c. F Test (Simultaneous)

Table 10. Linear Model Estimation Results

F-statistic	293.8122	Durbin-Watson stat	2.433323
Prob(F-statistic)	0.000000		

Source: Secondary data processed by the researcher, 2021.

This test aims to determine the joint effect of independent variables on the dependent variable. Based on Table 10, the significance level Prob(F-statistic) of 0.000 < 0.05 indicates that Regional Taxes, Regional Levies, Capital Expenditures, Asset Turnover, and Leverage jointly (simultaneously) influence Regional Government Financial Performance (GFP).

d. T Test (Partial Significance)

Table 11. Linear Model Estimation Results

Variable	Coefficient	t-Statistic	Prob.
C	0.046814	19.31841	0.0000
RT	-1.315229	-1.458886	0.1449
RL	1.409630	3.201862	0.0014
CE	2.119849	5.161315	0.0000
AT	1.031387	46.28456	0.0000
LV	-0.022905	-1.062679	0.2882

Source: Secondary data processed using EViews 10.

The t test is conducted to see the partial effect of independent variables on the dependent variable. If the t-statistic > t-table at a significance level of 5%, and if the t-statistic < t-table at a significance level of 5%, then it can be concluded that the independent variable does not affect the dependent variable. This study will compare the probability value > 0.05, then the hypothesis is accepted, and if the probability < 0.05, then the hypothesis is rejected. Based on Table 11, the interpretation is as follows:

Hypothesis 1 (Regional Taxes affect Regional Government Financial Performance)

Based on the table, Regional Taxes do not have a significant effect on Regional Government Financial Performance from 2017 to 2019. This is shown by the significant probability value of Regional Taxes being 0.1449 > 0.05 and the t-statistic (-1.4588860) < t-table (1.962). Thus, hypothesis H1 is rejected in this study.

Hypothesis 2 (Regional Levies affect Regional Government Financial Performance)

Based on the table, Regional Levies have a significant effect on Regional Government Financial Performance from 2017 to 2019. This is shown by the probability value of 0.0014 < 0.05 and the t-statistic (3.201862) > t-table (1.962). Thus, hypothesis H2 is accepted in this study.

Hypothesis 3 (Capital Expenditures affect Local Government Financial Performance)

Based on the table, Capital Expenditures have a significant effect on Regional Government Financial Performance from 2017 to 2019. This is shown by the probability value of 0.0000 < 0.05 and the t-statistic (5.161315) > t-table (1.962). Thus, hypothesis H3 is accepted in this study.

Hypothesis 4 (Asset Turnover affects Regional Government Financial Performance)

Based on the table, Asset Turnover has a significant effect on Regional Government Financial Performance from 2017 to 2019. This is shown by the probability value of 0.0000 < 0.05 and the t-statistic (46.28456) > t-table (1.962). Thus, hypothesis H4 is accepted in this study.

Hypothesis 5 (Leverage affects Regional Government Financial Performance)

Based on the table, Leverage does not have a significant effect on Regional Government Financial Performance from 2017 to 2019. This is shown by the probability value of 0.2882 > 0.05 and the t-statistic (-1.062679) < t-table (1.962). Thus, hypothesis H5 is rejected.

DISCUSSION

The Effect of Local Taxes on Regional Government Financial Performance

The analysis results above indicate that Local Taxes do not have a significant effect on Regional Government Financial Performance, as statistically proven by the significance value of 0.1449 > 0.05, thus H1 is rejected. This result shows that increasing regional taxes may lead to a decrease in regional government financial performance. This finding contradicts the research by Eviniar and Priyo (2020), which states that regional taxes have a significant positive effect on regional government financial performance, confirming that regional taxes are an important component contributing to regional spending. Although the result is not statistically significant, it does not mean that regional governments should ignore regional taxes. Regional governments should also focus on continuously improving regional tax revenues by examining and tapping into potential regional tax sources that have not yet been optimized.

The Effect of Regional Levies on Regional Government Financial Performance

Hypothesis testing results show that regional levies have a significant positive effect on regional government financial performance with a significance value of 0.0014 < 0.05. Thus, the hypothesis stating that regional levies affect regional government financial performance is accepted, and it can be concluded that H2 is accepted. This result is consistent with the research by Fadly, Harijanto, and Victorina (2016), which shows that regional levies have a significant effect on

regional independence, indicating that regional financial independence is influenced by mandatory payments from residents to the state due to specific services.

The Effect of Capital Expenditures on Regional Government Financial Performance

Hypothesis testing results show that the previous year's capital expenditures have a significant positive effect on regional government financial performance with a significance value of 0.0000 < 0.05. This result proves that the hypothesis stating that capital expenditures affect regional government financial performance is accepted, and it can be concluded that H3 is accepted. This finding contrasts with research by Antari and Sedana (2018), which shows that capital expenditures have a negative effect on regional financial performance, indicating that capital expenditure activities by regional governments have not fully contributed to regional revenue growth. An increase in capital expenditures means that the government has made efforts to improve infrastructure, which can boost community productivity, enabling the community to pay regional taxes and levies, subsequently increasing regional original income and improving regional government financial performance.

The Effect of Asset Turnover on Regional Government Financial Performance

The data analysis results in the table above indicate that asset turnover has a significant effect on regional government financial performance with a significance value of 0.000 < 0.05, statistically proven by the hypothesis results stating that H4 is accepted. This result shows that an increase in asset turnover can enhance regional government financial performance. If the asset turnover of a regional government increases, it will be able to achieve good financial performance. This result is consistent with the research by Patricia and Teri (2001), which shows the effect of asset turnover on financial performance.

The Effect of Leverage on Regional Government Financial Performance

The hypothesis testing results indicate that leverage does not significantly impact regional government financial performance, with a significance value of 0.2882 > 0.05. This finding suggests that increases in leverage do not lead to improved financial performance for regional governments. Consequently, H5 is rejected. This conclusion aligns with Sari (2016), which also found no significant effect of leverage on financial performance. However, it contrasts with Alfairisi (2015), which reported a significant positive effect of leverage on financial performance, highlighting the need for high-quality legislative members for effective public decision-making. The discrepancy suggests that high leverage does not always enhance performance, as some regions may prioritize personal interests over the public's needs.

CONCLUSIONS

Based on the partial test results, regional taxes do not significantly affect regional government financial performance, thus H0 is accepted. This is supported by the rejection of H1. Based on the partial test results, regional levies

have a significant positive effect on regional government financial performance, thus H0 is rejected. This is supported by the acceptance of H2.

Based on the partial test results, capital expenditures from the previous year have a significant positive effect on regional government financial performance, thus H0 is rejected. This is supported by the acceptance of H3. Based on the partial test results, asset turnover has a significant positive effect on regional government financial performance, thus H0 is rejected. This is supported by the acceptance of H4. Based on the partial test results, leverage from the previous year does not significantly affect regional government financial performance, thus H0 is accepted. This is supported by the rejection of H5.

LIMITATIONS

1. The lack of information and literature used as references and support for the research variables is very minimal.
2. The data used for this research only includes data from districts/cities that provide complete information on the variables used. The data is solely sourced from the Balance Sheet and RREB Realization Report.
3. The independent variables used related to regional government financial performance are only five variables: Regional Taxes, Regional Levies, Capital Expenditures, Asset Turnover, and Leverage. Therefore, there is a need for more variables and additional factors.

RECOMMENDATION

1. The lack of information and literature used as references and support for the research variables is very minimal.
2. The data used for this research only includes data from districts/cities that provide complete information on the variables used. The data is solely sourced from the Balance Sheet and RREB Realization Report.
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