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Factors Influencing Local Government Financial Performance

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Abstract−This study aims to examine: The effect of local revenue, balancing funds, and capital expenditures on the financial performance of local governments. The population in this study were all local governments in West Sumatra Province, which consisted of 19 regencies and cities. The sample in this study amounted to 19 districts/cities. The data analysis techniques are descriptive statistics, multiple regression analysis, classical assumption test, hypothesis test, and R square test. The results showed that: regional income has a negative effect, the balanced fund has no effect, and capital expenditure has no impact on the financial performance of local governments.

Keywords: Local Revenue; Financial Performance; Balancing Funds; Capital Expenditure; Local Governments.

1. INTRODUCTION

Regional Autonomy, according to Law Number 23 of 2014 concerning regional government, is the region's right, authority, and obligation to regulate and manage government affairs and the interests of the local community in accordance with applicable laws and regulations. These regulations become the basis for the regions to work and exercise their authority. To carry out their charge, local governments are given the power to explore sources of revenue in the form of their income originating from the potential in the region (Ginting et al., 2019). In addition, regional Autonomy is expected to encourage an area to have the ability to explore its financial resources. Regions are expected to become independent in financial management as indicated by more substantial fiscal capacity or local revenue so that areas do not depend on the central or provincial governments through balancing funds following the objectives of implementing Autonomy to support the creation of regional independence and can regulate the balance between the central government and regional governments (Harahap, 2020).

The balance between the central government and regional governments, according to Law Number 33 of 2004, is a system of financial distribution that is fair, proportional, democratic, transparent, and efficient in the framework of funding the implementation of decentralization, taking into account the potential, conditions, and needs of the regions, as well as the amount of funding implementation of deconcentration and co-administration tasks. The balance between the central and regional governments can be ideal if each level of government can manage its finances to finance its respective restricted duties and authorities (Yunita & Rasmini, 2018). The balance between the central government and local governments can be described as sources of funds received by local governments in carrying out governmental authority, namely balancing funds. Balancing funds according to Law Number 33 of 2004 concerning the financial balance between the central government and regional governments are funds originating from APBN revenues allocated to regions to fund regional needs in the context of implementing decentralization. Balancing funds consist of profit-sharing, general allocation, and special allocation funds. Balancing funds affect the financial performance of local governments, namely funds received from the central government will show that the stronger the regional government depends on the central government to meet regional needs so the more it will make regional financial performance decrease (Priyono et al., 2020).

Balancing funds aim to finance excess regional spending and create a financial balance between the central government and the regions between provincial governments (Hardiningsih et al., 2020). If regional management is carried out properly following established regulations, then the performance of the regional government itself will improve. In addition to balancing funds, other sources of funds are obtained from the area (Saud et al., 2020). One of the sources of regional finance, namely local original income, local governments is expected to be able to manage the increase in actual regional income regularly by allocating these funds to types of spending that can encourage economic growth, which in turn can improve people's welfare (Putra & Yasa, 2018).

Based on Law Number 33 of 2004 concerning the financial balance between the central government and regional governments, Article 1 Local Own Revenue is income earned by the regions collected based on provincial regulations following statutory regulations. Regional original income is divided into several parts: regional taxes, regional levies, separated regional wealth management results, and other legitimate regional actual revenues. Regional original income is a reflection of regional independence. Regional initial income, which increases yearly and can finance the running of the provincial government, is expected to boost regional Autonomy (Andriani et al., 2021). The ability of a region to explore original regional income will affect the development and development of an area. The government is expected to be more able to dig up financial sources through actual regional income because the more significant the contribution of original regional income to the provincial budget, the less dependence on the central government. (Syawie et al., 2017).

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In addition to regional original revenues and balancing funds, capital expenditures can affect regional financial performance. Capital expenditure is a component of direct expenditure in the government budget that produces output in the form of fixed assets. According to the Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning Government Accounting Standards, capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that benefit more than one accounting period (Saleh, 2020).

Financial performance is influenced by regional revenues and expenditures, as well as other factors, so measuring financial performance is necessary. Regional financial performance is the ability of a region to explore and manage regional original financial resources to meet its needs to support the running of the government system, service to the community, and regional development without being utterly dependent on the central government and having the flexibility to use funds for the benefit of the local community within the limits -limits determined by laws and regulations. Financial performance analysis aims to measure and evaluate government performance, measure the potential for obtaining economic resources, determine financial conditions, determine the government's ability to fulfill its obligations, and ensure that the government has implemented the budget according to finances (Garung & Ga, 2020). In managing regional financial performance, it must be based on applicable laws and regulations so that management of regional financial performance can run well (Wiguna, 2015).

The financial ratio analysis used in this study is the independence ratio, the regional dependency ratio, and the fiscal decentralization ratio. These three ratios are used because they relate to the variables used in the study. The independence ratio describes the level of regional dependence on external funding sources. The higher the independence ratio, the lower the level of regional reliance on external assistance (especially the central and provincial governments), and vice versa (Utami & Sulardi, 2019). The decentralization ratio shows the degree of local revenue contribution to total regional revenue. The higher the regional original revenue contribution, the higher the provincial government's ability to implement decentralization (Melmambessy, 2022). In addition to the independence ratio and the decentralization ratio, there is the regional financial dependence ratio. The regional economic dependency ratio is calculated by comparing the amount of transfer income received by the region with the total regional revenue. (Marlianita & Saleh, 2020). The higher this ratio, the greater the level of dependence of local governments on the central government and provincial governments.

These ratios can measure the financial performance of the Regional Government of West Sumatra from 2020 to 2022. West Sumatra Province received the Dana Rakca Award in 2021 and 2022. This award was given because West Sumatra Province was considered to have good financial performance and received an Unqualified Opinion (WTP) five times in a row. This award was given because the West Sumatra region had economic stability that continues to experience growth, besides that the accuracy of the preparation of the Regional Expenditure Budget (APBD), starting from planning, implementation, and reporting, as well as the accuracy of targets in the performance of the APBD. This can be proven in the realization of the revenue of the West Sumatra Provincial Government. Reporting from the website bps.sumbar.go.id, the completion of income for the Province of West Sumatra during 2020 was recorded at IDR 4,624.67 billion, an increase of 14.13 % from the previous year. The increase in the realization of local government revenue for the Province of West Sumatra in 2020 was due to the rise in balancing funds of 85.26 % compared to 2019, and Regional Own Revenue increased by around 4.66 %.

The realization of local government revenue at the West Sumatra Province level in 2020 has increased by around 4.66%. This increase was sourced from regional taxes of IDR 1,522.12 billion (77.03%) and other legitimate regional original income of IDR 332.68 billion (17.35 %). The remainder came from the results of separated regional wealth management of IDR 89.98 billion (4.54 %) and provincial levies of IDR 19.36 billion (1.09 %). Meanwhile, the most significant contribution to the balancing fund came from the general allocation fund of IDR 1,261.91 billion or around 48.97 %, followed by the special allocation fund of IDR 1,180.34 billion (45.81 %). Meanwhile, tax-sharing and non-tax profit-sharing funds only contributed IDR 134.50 billion.

In terms of regional government spending at the West Sumatra Province level, the realization in 2020 was recorded at IDR 4,504.04 billion, or an increase of 11.98 % compared to 2019. This increase was due to an increase in direct spending of 14.48 % and was supported by the rise in indirect spending, amounting to 10.22 %. The direct expenditure allocation was dominated by capital expenditure needs, which amounted to IDR 989.93 billion (52.00 %). The increase also occurred in 2021 and 2022, in 2021 it was recorded that the realization of government revenue at the West Sumatra Province level was IDR 6,066.83 billion, an increase of 31.18 % from 2020. This increase was dominated by balancing funds which experienced an increase of 50.06 %. The most significant contribution in 2021 to the balancing fund will come from the general allocation fund of IDR 2,014.64 billion or around 52.10 %, followed by the special allocation fund of IDR 1,699.58 billion (43.95 %).

Meanwhile, tax-sharing and non-tax profit-sharing funds only contributed IDR 152.43 billion (3.94 %). Meanwhile, local revenue only experienced an increase of around 8.65 %. The most significant source of regional original income for the government of West Sumatra Province in 2021 comes from provincial taxes of IDR 1,626.92 billion (76.24 %) and other legitimate local revenues of IDR 389.57 billion (18.26 %). The remainder came from the results of separated regional wealth management of IDR 94.61 billion (4.43 %) and provincial levies of IDR 22.91 billion (1.0I7 %).

Viewed from the regional expenditure side of the Regional Government of West Sumatra Province, its realization in 2021 was recorded at IDR 5,759.82 billion, an increase of 27.88 % compared to 2020. It was recorded that the allocation of direct expenditure was dominated by capital expenditure needs, namely IDR 1,113.51 billion.

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Whereas in 2022, the realization of the West Sumatra Provincial Government's revenue during 2022 was recorded at IDR 6,292.29 billion, an increase of 3.72 % from 2021. The increase in the realization of the West Sumatra Provincial Government's revenue in 2022 was due to the rise in the balance fund of 1.66 % compared to 2021. The most significant contribution to the balancing fund came from the general allocation fund of IDR 2,014.65 billion or around 51.25 %, followed by the special allocation fund of IDR 1,784.40 billion (45.40 %).

Meanwhile, tax-sharing and non-tax profit-sharing funds only contributed IDR 131.77 billion (3.35 %). Meanwhile, original regional income increased by around 6.61 %. The largest source of regional original revenue for the West Sumatra provincial government came from regional taxes of IDR 1,797.68 billion (79.02 %) and other legitimate regional original revenues of IDR 376.53 billion (16.55 %). The remainder came from the results of separated regional wealth management of IDR 82.12 billion (3.61 %) and provincial levies of IDR 18.76 billion (0.82 %).

Regarding regional government spending at the West Sumatra Province level, the realization in 2022 was recorded at IDR 6,276.38 billion, an increase of 8.81 % compared to 2021. This increase was due to an increase in direct spending of 24.97 %. The direct expenditure allocation was dominated by goods and services expenditure needs, amounting to IDR 1,489.06 billion (56.91 %). The second largest expenditure was used for capital expenditure, which amounted to IDR 1,099.70 billion or around 42.03 %.

An increase in 3 (three) consecutive years indicates that the Province of West Sumatra has increased regional development. Regional original revenues and increased capital expenditures can be used to build or improve the infrastructure, services, facilities, and public infrastructure needed by the community (Antari & Sedana, 2018). Suppose the community is supported with adequate facilities and infrastructure. In that case, the community can run the wheels of their economy and carry out all their activities which have an impact on increasing their ability to pay a predetermined number of levies, both in the form of taxes and levies. This condition can add to original regional income, which can be used for capital expenditures and improve regional financial performance (Kusumasari et al., 2015).

2. RESEARCH METHODS

2.1 Design Research

This type of research is comparative causal research. According to Sugiarto (2022), the comparative causal analysis looks at the causal relationship between two or more variables. This type of research is comparative causal research. According to Sugiarto (2022), comparative causal analysis looks at the causal relationship between two or more variables. This study aims to determine how the influence of regional original income, balancing funds, and capital expenditure on the financial performance of the Regional Government of West Sumatra Province. This research uses secondary data from the 2020-2022 APBD realization report. This research is a comparative causal study that uses time series data from 2020 to 2022. The population in this study is all district and city local governments in West Sumatra province with a total of 12 regencies and 7 cities.

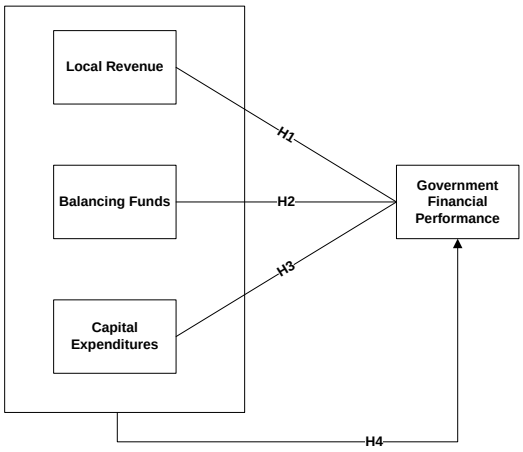

Figure 1. Research Framework

- **H_1 :** Regional Original Income has a positive effect on the Financial Performance of the West Sumatra Provincial Government
- **H_2 :** Balancing Funds have a negative effect on the Financial Performance of the West Sumatra Provincial Government
- **H_3 :** Capital Expenditure has a positive effect on the Financial Performance of the West Sumatra Provincial Government

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H_4 : Regional Own Revenue, Balancing Funds, and Capital Expenditure simultaneously affect the Financial Performance of the West Sumatra Provincial Government.

2.2 Data Analysis Method

2.2.1 Descriptive Statistical Analysis

According to Ghozali (2016), Descriptive statistics provide an overview or description of data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (distribution skewness). To provide an overview of descriptive statistical analysis. Descriptive analysis aims to describe what is found in the research results and provide information according to what is obtained in the field.

2.2.2 Multiple Linear Regression Analysis

Multiple regression analysis is an analysis of the relationship between the independent (independent) variable and the dependent (dependent) variable to determine the direction of the relationship between the independent and dependent variables and to see whether the value of the dependent variable has increased decreased (Sugiarto, 2022). The equation is as follows:

$$Y' = a + b_1X_1 + b_2X_2 + ...+ b_nX_n \quad (1)$$

Information:

Y'	=	Financial Performance
X1	=	Local Revenue
X2	=	Balancing Fund
X3	=	Capital Expenditures
A	=	Constant
B	=	Regression Coefficient

2.3 Classic assumption test

2.3.1 Normality test

According to Hardani et al (2020), the normality test aims to test whether confounding or residual variables have a normal distribution in the regression model. There are two ways to detect whether the residuals are normally distributed: graphical analysis and non-parametric statistical tests of the –Smirnov Kolmogorov (KS).

2.4 Hypothesis testing

2.4.1 Partial Test (t-test)

According to Hardani et al (2020), the statistical t-test shows how far the influence of one explanatory/independent variable individually in explaining the dependent variables. There are two criteria for conducting the t-test, namely:

a. H_a is accepted if the significance value is less than $\alpha = 5\%$, and Ha is rejected if the significance value is more significant than $\alpha = 5\%$.
b. If $_{count} > t_{table}$, H_a is accepted, which states that an independent variable affects the dependent variable.

2.4.2 Simultaneous Test (Test-f)

The F statistical test shows whether all independent or independent variables jointly affect the dependent or dependent variable (Ghozali, 2016). To test this hypothesis, F statistics is used with the following decision-making criteria:

a. If $F_{count} > Ft_{able}$ or $sig < \alpha = 0.05$, H_o is rejected, and H_a is accepted, meaning that all independent variables simultaneously and significantly influence the dependent variable.
b. If the calculated $Fc_{ount} < F_{table}$ or $sig > \alpha = 0.05$, then H_o is accepted and H_a is rejected, meaning that all independent variables simultaneously and significantly do not affect the dependent variable.

2.4.3 Determination Coefficient Test (R_2)

According to Ghozali (2016), the coefficient of determination (R_2) measures how far the model can explain the variation of the dependent variable.

3. RESULT AND DISCUSSION

3.1 Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis Results

Descriptive Statistics					
	N	**Min**	**Max**	**Mean**	**Std. Deviation**
Balancing Fund	57	4395.00	1435.00	7945.13	2645.91

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Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Capital Expenditures	57	7752.00	4197.00	2168.94	7639.27
Decentralization Ratio	57	0000.52	0000.26	0000.10	0000.05
Local Revenue	57	2968.00	5486.00	1086.00	9585.22
Dependency Ratio	57	0000.65	0000.89	0000.79	0000.05
Balancing Fund	57	4395.00	1435.00	7945.00	2645.00
Capital Expenditures	57	7753.00	4197.00	0000.12	0000.07
Independence Ratio	57	0000.03	0000.37	0000.12	0000.06
Valid N (listwise)	57				

Based on the table, the results of the descriptive statistical tests of this study can be seen, where based on the test results, the minimum, maximum, mean, and standard deviation values for each variable in this study were obtained.

3.2 Multiple Linear Regression Analysis

Table 2. Decentralized Multiple Linear Regression Analysis Test Results

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.060	.019		3.226	.002		
	Balancing Fund	-3.454356	.000	-.021	-.104	.918	.407	2.459
	Capital Expenditure	1.942872	.000	.339	1.676	.100	.407	2.459

a. Dependent Variable: Decentralization Ratio

From the table, the multiple linear regression equation can be determined as follows:

KK = 0.060-3.454356DP+1.942872BM+e

a. The constant value obtained is 0.060. This means that if the balancing fund variable, capital expenditure, is ignored, or the value is 0, then the financial performance is 0.060.
b. The regression coefficient value of the balancing fund variable is -3.454356. If the balancing fund is increased by one (1) unit with the assumption that capital expenditure is ignored/absent (0), then financial performance decreases by -3. 454356.
c. The value of the capital expenditure variable regression coefficient is 1,942872. That is, if capital expenditure is increased by one (1) unit, assuming that balancing funds are ignored/absent (0), then financial performance increases by 1,942872.

Table 3. Multiple Dependency Linear Regression Analysis Test Results

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.060	.014		3.226	.000		
	Local Revenue	-3.89286	.000	-.770	-.104	.000	.567	1.763
	Balancing Fund	4.59575	.000	.069	.557	.580	.567	1.763

a. Dependent Variable: Multiple Dependency

From the table above, the multiple linear regression equation can be determined as follows:

KK = 0.060-3.89286PAD+4.59575BM+e

a. The constant value obtained is 0.060. This means that if the local variable revenue and capital expenditure are ignored, or the value is 0, then the financial performance is 0.060.
b. The regression coefficient value of the regional original income variable is -3,89286. If local revenue is increased by one (1) unit with the assumption that capital expenditure is ignored / absent (0), then financial performance decreases by -3,89286.
c. The regression coefficient value of the capital expenditure variable is 4,59575. That is if capital expenditure is increased by one (1) unit assuming local revenue is ignored / absent (0), financial performance increases by 4,59575.

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Table 4. Independence Ratio Linear Regression Analysis Test Results

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.052	.026		2.001	.050		
	Local Revenue	2.32544	.000	.010	0.049	.961	.407	2.459
	Capital Expenditures	2.99913	.000	.362	1.823	.074	.407	2.459

a. Dependent Variable: Independence Ratio

From the table above, the multiple linear regression equation can be determined as follows:

KK = 0.052+2.325DP+2.999BM+e

a. The constant value obtained is 0.052. This means that if the balancing fund variable, capital expenditure, is ignored, or the value is 0, then the resulting financial performance is 0.052.
b. The regression coefficient value of the balancing fund variable is 2,325. If the balancing fund is increased by one (1) unit with the assumption that capital expenditure is ignored/does not exist (0), then financial performance increases by 2,325.
c. The value of the capital expenditure variable regression coefficient is 2,999. That is if capital expenditure is increased by one (1) unit assuming balancing funds are ignored / absent (0), then financial performance increases by 2,999.

3.3 Classic assumption test

3.3.1 Normality test

Table 5. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		55
Normal Parameters[b]	Mean	.000000
	Std.Deviation	.03503664
Most Extreme Differences	Absolute	.108
	Positive	.108
	Negative	-.080
Test Statistic		.108
Asymp. Sig (2-Tailed)		.161[c]

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

Based on the data in the table, the data in this study were normally distributed because it had a significant value >0.05, namely 0.161 so that it could proceed to the hypothesis testing stage because it met the requirements.

3.4 Hypothesis testing

3.4.1 Partial Test (t-test)

Table 6. Partial Test (t-test) Results

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std.Error	Beta		
1	(Constant)	.060	.019		3.226	.002
	Balancing Fund	-3.526086	.000	-.021	-.104	.918
	Capital Expenditures	1.971397	.000	.339	1.676	.100
2	(Constant)	.824	.014		57.462	.000
	Local Revenue	-3.892464	.000	-.770	-6.195	.000
	Capital Expenditures	4.392478	.000	.069	.557	.580
3	(Constant)	.052	.026		2.001	.050
	Balancing Fund	2.325947	.000	.010	.049	.961

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Coefficients					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std.Error**	**Beta**		
Capital Expenditures	2.999494	.000	.362	1.823	.074
a. Dependent Variable: Decentralization, Dependence, Independence					

Based on the table, the following hypothesis results can be explained:

a. The Effect of Local Revenue on the Financial Performance of the Regional Government of West Sumatra.
Based on the first hypothesis, local revenue positively affects the financial performance of the Regional Government of West Sumatra Province. This is different from the results of the t-test in the table, and it can be seen that t_{count} - 6.195 and t_{table} 2.00575 where t_{count} is greater than t_{table} (-6.195> 2.00575) and the significant value is smaller than alpha (0.000 <0.05). It can be concluded that local revenue hurts the financial performance of the Regional Government of West Sumatra Province. So the First Hypothesis is rejected.

b. The Effect of Balancing Funds on the Financial Performance of the Regional Government of West Sumatra
Based on the second hypothesis, balancing funds hurt the financial performance of the Regional Government of West Sumatra Province. This is different from the results of the t test in the table above, and it can be seen that t_{count} is 0.049 and t_{table} is 2.00575, where t_{count} is smaller than t_{table} (0.0490.05). The the significant value is smaller than alpha (0.049 <0.05) So it can be concluded that the balancing fund does not affect the financial performance of the Regional Government of West Sumatra Province (H_a is rejected, H_o is accepted).

c. The Effect of Capital Expenditure on the Financial Performance of the Regional Government of West Sumatra Province
Based on the third hypothesis, capital expenditure positively affects the financial performance of the Regional Government of West Sumatra Province. This is different, shown by the results of the t test in the table above, it can be seen that t_{count} 1.823 and t_{table} 2.00575 where t_{count} is smaller than t_{table} (1.823). So it can be concluded that capital expenditure does not affect the financial performance of the Regional Government of West Sumatra Province (Ha rejected, Ho accepted).

3.4.2 Simultaneous Test (f-test)

Table 7. Simultaneous Test (f-test) Results

ANOVA[a]						
	Model	**Sum of Square**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	.012	2	.006	3.137	.051[D]
	Residual	.099	54	.002		
	Total	.111	56			
2	Regression	.069	2	.035	30.102	.000[D]
	Residual	.062	54	.001		
	Total	.132	56			
3	Regression	.031	2	.015	4.260	.019[D]
	Residual	.194	54	.004		
	Total	.225	56			
a. Dependent Variable: Decentralization, Dependence, Independence						
b. Predictors: (Constant), Capital Expenditures, Balancing Fund, Local Revenue						

The table, shows that this Test was carried out by comparing the F_{count} value with $F_{table.}$ F_{table} values use 95% confidence or 5% alpha. Then the results of the decentralization ratio F test are F_{count} 3.137, and F_{table} results are 2.78 because F_{count} > F_{table} (3.137 > 2.78) with a significant level of 0.051 <0.05. The area dependence ratio gives F_{count} 30.102 and F_{table} 2.78 because F_{count} > F_{table} (30.102 > 2.78) with a substantial level of 0.000 <0.05. And the independence ratio gives F_{count} results of 4.260 and F_{table} results of 2.78 because F_{count} > F_{table} (4.260 > 2.78) with a significant level of 0.019 <0.05. this means that H_o is rejected and H_a is accepted, so it can be concluded that if testing is carried out simultaneously between local revenue (X_1), balancing funds (X_2), and capital expenditure (X_3), there is an influence on the financial performance of the Regional Government of West Sumatra Province.

3.5 Determination Coefficient Test (R^2)

Table 8. Determination Coefficient Test (R^2) Results

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.323[a]	.104	.071	.04287
2	.726[a]	.527	.510	.03394
3	.369[a]	.136	.104	.05996
a. Predictors: (Constant), Capital Expenditures, Balancing Fund, Local Revenue.				

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Based on the table above, the numbers are obtained R^2 (R square) decentralized ratio of 0.104 or 10.4%. This shows that the influence of the independent variable (balancing funds and capital expenditures) on the dependent variable (financial performance) is 10.4%, or the variation of the independent variable (balancing funds and capital expenditures) can explain 10.4% of the dependent variable (financial performance). The regional dependency ratio is 0.527, or 52.7%. This shows that the contribution of the independent variable (local original income and capital expenditure) to the dependent variable (financial performance) is 52.7%, or the variation of the independent variable (actual local income and capital expenditure) can explain 52.7% of the dependent variable (financial performance). The independence gain ratio is 0.136 or 13.6%. This shows that the influence of the independent variable (balancing funds and capital expenditures) on the dependent variable (financial performance) is 13.6%, or the variation of the independent variable (balancing funds and capital expenditures) can explain 10.4% of the dependent variable (financial performance).

4. CONCLUSION

Based on the results of the analysis that has been carried out, the researchers conclude that local revenue hurts the financial performance of the Regional Government of West Sumatra Province 2020-2022. From the results of this study, the lower the original regional income will affect the financial performance of the Regional Government. Balancing funds does not affect the financial performance of the Regional Government of West Sumatra Province 2020-2022. From the results of this study, it was found that high or low-balance funds do not affect financial performance. Capital expenditure does not affect the financial performance of the Regional Government of West Sumatra Province 2020-2022. From the results of this study, it was found that the high or low capital expenditure of West Sumatra did not affect the financial performance of the Regional Government. Regional original income, balancing funds, and capital expenditures affect the financial performance of the Regional Government of West Sumatra Province 2020-2022. It is hoped that subsequent research will explain more deeply how the influence of balancing funds, regional original income, and capital expenditures on the financial performance of local governments by using an even bigger object because this research is only limited to West Sumatra Province. In addition, it is also hoped that future research can use other variables that can describe what influences local government financial performance. The wider the object and the more complete the variables used, the more it will help perfection related to research on the financial performance of local governments in Indonesia.

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