The Effect of Regional Original Revenue, Balancing Funds, Capital Expenditure, and Financial Performance on Economic Growth in Regency/City in North Sumatra Province for the Years 2017- 2021

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Abstract

This research aims to analyze the effect of Regional Original Revenue (PAD), Balance Funds, Capital Expenditure, and Financial Performance on Economic Growth in the Districts/Cities located in the North Sumatra Province. The sample in this research consists of 33 from 25 districts and 8 cities located in North Sumatra Province, with the data used in this study being secondary data. The data used covers a period of 5 years, starting from 2017 to 2021. The data was processed using multiple linear regression analysis and using the SPSS program version 24. The results of this study indicate that regional original income has a significant positive impact on economic growth, regional original income that has a significant economic growth impact on Districts/Cities located in North Sumatra in relation to poverty, balance funds do not/ have a significant negative/positive impact on economic growth.

Keywords: *Regional Original Revenue, Balance Funds, Capital Expenditure, Financial Performance, and Economic Growth.*

1. Introduction

In the present era, the establishment of regional autonomy and the delegation of fiscal authority have led to the rapid development of public sector accounting in Indonesia. With fiscal decentralization, it is hoped that regions will be able to enhance their advantages as an attraction for investors to directly enter the region and open businesses, which increases regional income and improves the economy of the community (Maeenuddin et al., 2023). Financial performance can be assessed from the realization report of the regional budget (APBD). The higher the capital expenditure consumed, the more it correlates with a high level of economic productivity in the performance of regional governments. Dwi Anggoro et al., (2018) state that the principle of regional autonomy that has been implemented allows local governments to have the rights and obligations to manage their own households in the region while considering various needs in running their government (Prasetyo et al., 2023). The independence of a region can be measured by the ability of the region to finance each activity, especially in financial matters, due to the rapid development that originates from the allocation of appropriate capital expenditure. Badjra & Nyoman (2017). The original regional income reveals whether a region's capacity to explore PAD impacts the progress of the region, so the higher the PAD assistance to APBD, the less dependence on contributions to the central government.

Based on the above description, we are interested in conducting research with the title: "The Effect of Original Regional Income, Balance Funds, Capital Expenditure, and Financial Performance on Economic Growth in Districts/Cities in North Sumatra Province in 2017-2021.

Table 1. Financial Report of Original Regional Income, Balance Funds, Capital Expenditure, Financial performance, Towards Economic Growth

Regency/City	Year	Local Origin Revenue (000)	Balancing Fund (000)	Capital Expenditures (000)	Economic Growth (000)
Mandailing Natal	2017	80,581,689	1,045,563,864	268,234,398	3,56
	2018	84,809,924	1,064,375,457	199,849,015	1,83
	2019	98,758,815	1,139,343,820	206,392,843	1,94
	2020	90,454,777	987,393,737	138,152,201	3,17
	2021	142,409,606	1,127,055,151	217,236,641	3,20
Dairi	2017	128,489,751	790,001,520	260,705,969	4,93
	2018	73,906,825	785,653,448	201,561,438	5,01
	2019	74,360,339	826,507,838	197,567,865	4,82
	2020	86,204,500	1,014,860,892	195,879,275	-0,94
	2021	72,268,892	798,559,678	177,886,898	2,05
Toba Samosir	2017	54,840,824	753,482,195	199,230,031	4,90
	2018	52,298,961	705,931,666	152,970,217	4,96
	2019	68,042,531	735,587,572	135,339,350	4,85
	2020	49,852,010	659,358,633	46,115,734	-0,27
	2021	69,049,798	701,747,105	107,047,849	-0,27

Source: Central Bureau of Statistics for North Sumatra, 2021

2. Literature Review

The Influence of Regional Original Income on Economic Growth

Regional Original Income is a source of regional revenue that is originally obtained in the area and used as the basic capital of the regional government (Santoso et al., 2022), collected based on local regulations in accordance with laws and regulations that continue to support regional development and business to reduce the amount of money received by the central government (Ahmed et al., 2023). Where regional revenues that come from state-owned enterprises (SOEs), or regional-owned enterprises (ROEs) with any name and in any form, such as a firm, company, cooperative, pension fund, partnership, association, foundation, mass organization, socio-political organization, or other organizations, institutions, and other forms of bodies, including collective investment contracts and permanent businesses. Meanwhile, economic growth, proxied by the Gross Regional Domestic Product (GRDP), can reflect the macroeconomic condition of a region so that people's income and commodity prices increase.

The magnitude of local taxes and levies is greatly dependent on the state of the public economy. It is important to understand that too powerful taxes can endanger those who are obliged to use them, so that the public is not harmed. However, it should be known that high taxes can burden

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taxpayers, so it is hoped that local taxes and levies are not too high so as not to burden the community. However, in other regions, the government has the authority to provide public services such as roads, parking lots, and public markets to support the economic growth of the general public.

The Influence of Balance Funds on Economic Growth

Balance funds or transfer funds have a very important function in achieving efficiency and balance in providing public services because it affects financial performance where the income obtained from the center always depicts the dependence of the region in meeting its needs towards the central government, which decreases financial performance (Bahruddin, 2017). The financial balance between the central government and the regional government is a system of financial distribution that is fair, proportional, and democratic, transparent and efficient. In the context of financing the implementation of decentralization. By maximizing the potential conditions and needs of the region, as well as the spirit of funding the implementation.

The Influence of Capital Expenditures on Economic Growth

High level of capital expenditure (BM) provides a picture of the infrastructure and facilities-built Halim (2014). In general, if the level of development is high, it will increase the services received by the community which in turn will have a good impact on financial performance (Hussain et al., 2023). This proves, the more capital expenditure, the ability to measure financial performance increases. Among other things, regional autonomy creates independence, delegation of authority, and explores the potential sources of resources of the Regional Government so that it can develop in business. The phenomenon that occurred in the Regional Government of the Regency/City of North Sumatra Province depicts not all Regional Governments are financially sound. This can be seen from the data on regional expenditure growth which is one of the indicators of the financial performance of the Regional Government, which shows the existence of uneven regional expenditure growth. The next phenomenon is that there is an increase in original regional income but it is not followed by an increase in regional spending. Based on the phenomenon above, there is a problem in the form of the uneven financial ability of the regional government in distributing its regional spending (Ahmad et al., 2023). some regions show high growth rates and some show very low growth rates. The relevant differences from the growth of regional expenditure for the District/City in North Sumatra show that there has been a gap in the financial ability between regions which in the end will cause a gap in welfare between regions. The condition in this matter is to bring implications for the delegation of authority between the center and the regions in various fields.

Based on these issues, improvements are necessary. This can't be just left as it is, because every citizen has the same right to live prosperously. Therefore, it's the duty of every regional government to optimize its income from the regional original revenue sector to be able to finance its regional expenditures to improve services to the public.

The Effect of Financial Performance on Economic Growth

Performance is an achievement of what is planned, by individuals and organizations. The ongoing performance runs smoothly if the achievement is in accordance with what is expected. If the achievement does not meet what is expected, it is possible to say that its performance is very good. If the achievement is not according to expectation or higher than expected, then its performance is bad," that statement goes. Many performance measures, including independence ratio, effectiveness ratio, efficiency ratio, growth ratio, and harmony ratio, exist within a government organization responsible for managing financial performance. Hence, the explanation related to it only on independence ratio, effectiveness ratio, and efficiency ratio. So economic growth is the ability of a

country to provide the needs of goods and services to the public in large quantities so that it allows for an increase in living standards which in turn affects the reduction of unemployment rates in the long term. Independence and economically, effectively, and efficiently management of a region or area can drive the economic growth of the region. This is because of the lack or absence of intervention in the policies related to the management of the region. In addition to that, the regional apparatus can be initiative and creative in managing the region to encourage regional growth.

Conceptual Framework
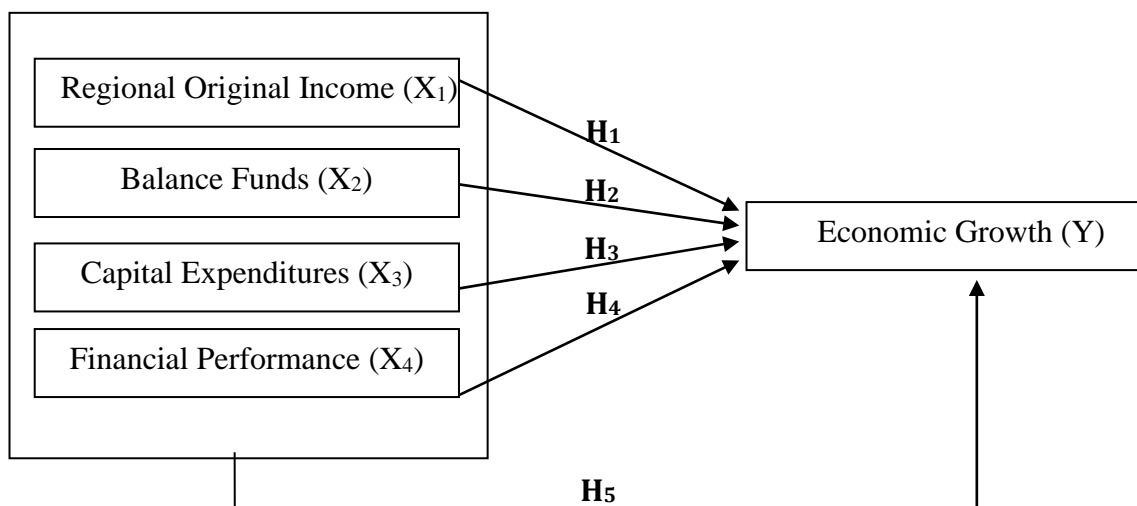
Figure 1. Conceptual Framework

3. Methodology

The research was conducted in North Sumatra Province through the Central Bureau of Statistics of North Sumatra Province. This research was carried out from March 2022 until December 2022. The data used in this research is secondary data, collected using a documentation technique by taking data from the districts/cities in North Sumatra Province. The data was obtained from the Central Bureau of Statistics of North Sumatra Province website (https://bps.go.id). This research is a descriptive study. According to Sugiono (2018), descriptive research is conducted to determine the value of independent variables, whether one variable or more, without making comparisons or connections with other variables.

Population and Sample

The population in this research are the Governments of Districts/Cities in North Sumatra for the period 2017-2021. The number of Districts/Cities in North Sumatra Province is 33, with the research period being 5 years, so the number of observations in this research is 165 (33 times 5).

Variable Identification and Operational Definitions

The research variable is an attribute or trait or value of an object or activity that has certain variations determined by the researcher to study and then draw conclusions from (Sugiyono,2019:68). This research uses two types of variables: independent variables and dependent variables.
1. Independent Variable: According to Sugiyono (2019:61), independent variables are variables that influence or cause changes or the emergence of dependent (bound) variables.

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2. Dependent Variable: According to Sugiyono (2019:39), the dependent variable is the output variable, criteria, and consequences.

The research also includes tests for Classical Assumptions, Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test. Following these tests, a Multiple Linear Regression Analysis is to be conducted, with certain economic variables represented as Y, A, b1b2b3b4, X1, X2, X3, X4, and E. Hypothesis Testing is carried out both Simultaneously (F-test) and Partially (t-test). F-test aims to determine whether the independent variables collectively influence the dependent variable, and the t-test is used to examine the influence of each independent variable on the dependent variable.
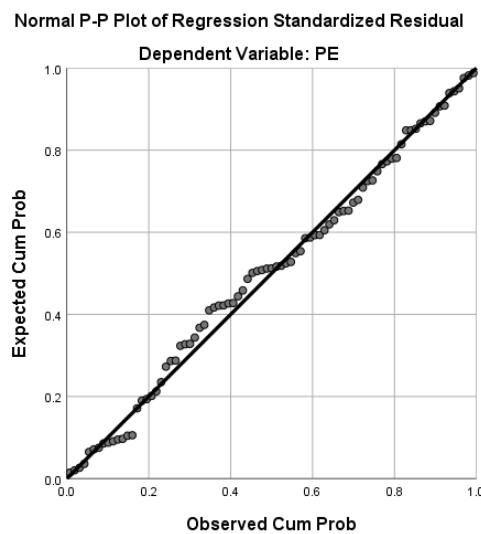
4. Result and Discussion

Normality Test
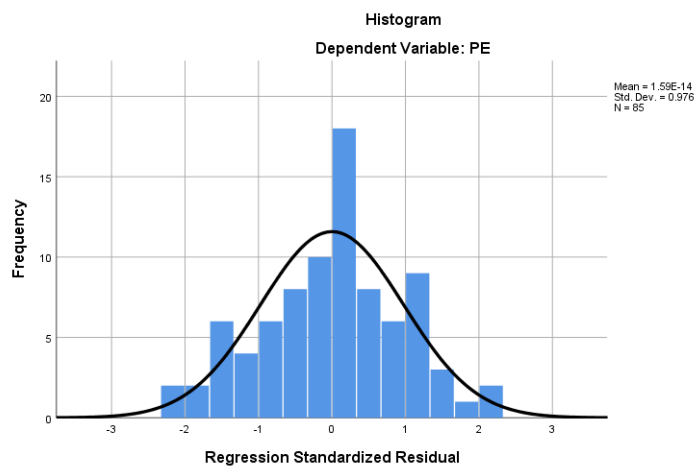
Figure 2. Histogram

Based on the display of the graph above, it can be concluded that the histogram graph results in a normal distribution pattern. The normal distribution pattern in the histogram graph above is characterized by data spreading along the diagonal line, indicating a normal distribution pattern.

Figure 3. P-Plot

The P-plot shows that the focus spreads and touches the long sloping line, so the information has met the normal requirements.

Table 2. Normality Test Results with the Kolmogorov-Smirnov Test

		Unstandardized Residual
N		85
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.14459899
Most Extreme Differences	Absolute	.066
	Positive	.065
	Negative	-.066
Test Statistic		.066
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on the table above, the significance value of the Kolmogorov-Smirnov Test is 0.200, where this value is > 0.05, thus it is in accordance with the histogram P-Plot and follows a normal distribution.

**Multicollinearity Test**

Table 3. Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	PAD	.821	1.218
	DP	.892	1.121
	BM	.850	1.176
	KK	.991	1.009

In the table above, the calculation of the tolerance value for PAD, DAPER, BM, and KK, respectively, is 0.821; 0.892; 0.850; 0.991 > 0.10. Similarly, the VIF values for PAD, DAPER, BM, and KK, respectively, are 1.218; 1.121; 1.176; 1.009 < 10.00. Therefore, it can be concluded that there is no multicollinearity in the independent variables.

Heteroskedasticity Test
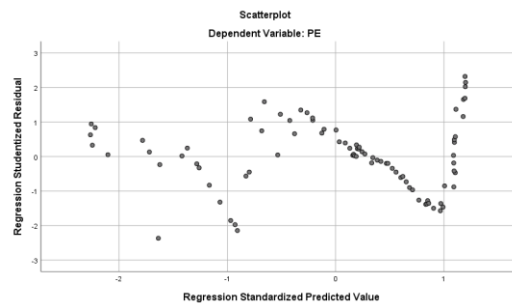
Figure 4. Scatterplot

Based on the test results using a scatterplot above, it can be observed that the points in the figure do not form a regular pattern, and the points scatter above and below the number 0 on the Y-axis. Thus, in this research, there is no heteroscedasticity. Therefore, the linear regression model in this case is suitable to be used.

Results of Data Analysis in the Research

Multiple Linear Regression Equation Analysis

Multiple linear regression analysis is used by researchers to understand or predict the conditions of increase or decrease of the dependent variable when two or more independent variables, presented in the following table, are involved.

Table 4. Coefficients

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	6.598	.072		91.471	.000
PAD	-2.191E-10	.000	-.994	42.715	.000
DP	9.451E-18	.000	.039	5.463	.000
BM	5.043E-13	.000	.004	-3.342	.001
KK	-.001	.004	-.007	-.335	.739

a. Dependent Variable: PE

Y=6.598 - 2.191 PAD + 9.451 DP + 5.043 BM - 0.001 KK

1. The constant value is 6.598 units, therefore PAD, DP, BM, KK will increase by 6.6 units in Economic Growth.
2. The regression coefficient value of PAD is -2.191, thus PAD will increase and Economic Growth will decrease by 2.191 units from Economic Growth, assuming other variables are constant or zero.
3. The regression coefficient value of DP is 9.451 units, thus DP will increase by 9.451 units in Economic Growth, assuming other variables are constant or zero.
4. The regression coefficient value of BM is 5.043 units, thus BM will increase by 5.043 units in Economic Growth, assuming other variables are constant or zero.
5. The regression coefficient value of KK is -0.001, thus KK will increase and Economic Growth will decrease by 0.001 units from Economic Growth, assuming other variables are constant or zero.

Coefficient of Determination Test

The coefficient of determination test is performed to determine how much of the endogenous variable can explain the exogenous variable simultaneously. The higher the value of R2, the better the prediction model of the proposed research model. The coefficient of determination test (R2) is carried out to determine and predict how large or how important the contribution of the influence given by the independent variables together on the dependent variable. The coefficient of determination value is between 0 and 1. If the value is close to 1, it means that the independent variables provide almost all the information needed to predict the dependent variable. However, if the value of R2 is smaller, it means that the ability of the independent variables to explain the dependent variable is quite limited.

Discussion

The Impact of Original Regional Revenue on Economic Growth

The results of partial hypothesis testing in this study have a t-count of 42.715 and a t-table value of 1.989, so the t-count > t-table (42,715>1,989) and its significance is 0.000 < 0.05. Therefore, the first hypothesis in this study, that the Original Regional Revenue partially and significantly affects Economic Growth, is confirmed. These study results are in sync with the research findings of Ni Wayan Ratna Dewi I Dewa Gede Dharna Suputra (2017), which state that the Original Regional Revenue has a positive and significant impact on Economic Growth.

The Impact of Balancing Funds on Economic Growth

The results of partial hypothesis testing in this study have a t-count of 5.463 and a t-table value of 1.989, so the t-count > t-table (5.463 > 1.989) and its significance is 0.000 < 0.05. Therefore, the second hypothesis in this study, that the Balancing Funds partially and significantly affect Economic Growth, is confirmed. These study results are in sync with the research findings of Ni Made Nopiani, Wayan Cipta, Fridayana Yudiaatmaja (2016), which state that the Balancing Funds have a positive and significant impact on Economic Growth.

The Impact of Capital Expenditure on Economic Growth

The results of partial hypothesis testing in this study have a t-count of 3.342 and a t-table value of 1.989, so the t-count > t-table (3,342>1,989) and its significance is 0.001 < 0.05. Therefore, the third hypothesis in this study, that the Capital Expenditure partially and significantly affects Economic Growth, is confirmed. These study results are in sync with the research findings of Waryanto P (2017) and Habiburrahman et al. (2022), which state that the Capital Expenditure has a positive and significant impact on Economic Growth.

The Impact of Financial Performance on Economic Growth

The results of partial hypothesis testing in this study have a t-count of 0.335 and a t-table value of 1.989, so the t-count < t-table (0,335 <1,989) and its significance is 0.739 > 0.05. Therefore, the fourth hypothesis in this study, that the Financial Performance does not significantly affect Economic Growth, is confirmed.

5. **Conclusions**

The Original Regional Revenue has a partial, positive, and significant impact on Economic Growth in the Regencies/Cities in North Sumatra Province. The Balancing Funds have a partial, positive, and significant impact on Economic Growth in the Regencies/Cities in North Sumatra Province. Capital Expenditure has a partial, positive, and significant impact on Economic Growth in the Regencies/Cities in North Sumatra Province. Financial Performance has a partial, negative, and insignificant impact on Economic Growth in the Regencies/Cities in North Sumatra Province. The Original Regional Revenue, Balancing Funds, Capital Expenditure, and Financial Performance have a simultaneous impact on Economic Growth in the Regencies/Cities in North Sumatra Province.

Based on the conclusions explained above, there are several suggestions for future research: For the government of the Regencies/Cities in North Sumatra Province, it can explore more potential areas, especially in several sectors to increase the original regional revenue and reduce balancing funds from the central government, improve the method of regional expenditure on target, and increase the target of economic growth.

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