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Research Article

The Effect of Regional Original Revenue, Transfer Revenue, and Regional Expenditure on Regional Government Financial Performance (A Study of Regencies and Cities in The Province of Bali, 2019–2023)

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Abstract: The implementation of regional autonomy in Indonesia aims to reduce regional dependence on the central government. In this context, local governments are expected to enhance their own-source revenue sources. In reality, not all regions are capable of becoming fully independent. The dependency of regencies and cities in Bali Province indicates that local governments have not yet optimized their regional potential to increase Regional Original Revenue (PAD). This dependency affects their fiscal independence and overall financial performance. This study aims to empirically examine the effect of PAD, transfer revenue, and regional expenditure on financial performance from the perspective of agency theory. The study was conducted across all regencies and cities in Bali Province, using secondary data sourced from the budget realization reports obtained from each local Financial and Asset Management Agency (BPKAD). The study included 9 regencies/cities with 45 observations. A census sampling method was applied, where the entire population was used as the sample. The data were analyzed using multiple linear regression. The results show that PAD and transfer revenue have a positive effect on financial performance, while regional expenditure has a negative effect. It is recommended that local governments in Bali optimize their PAD by strengthening the tax sector, service charges, and asset management to improve fiscal independence.

Keywords: Financial Performance, Regional Expenditure, Regional Original Revenue, Transfer Revenue.

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1. Introduction

The financial performance of local governments is a critical indicator for evaluating the effectiveness and efficiency of public financial management, particularly in supporting sustainable development (Harahap, 2024). Regional autonomy offers opportunities for local governments to develop local economic potential and manage their own resources, but also demands a high level of accountability (Maeenuddin et al., 2023). One form of performance evaluation is through the realization report of the Regional Revenue and Expenditure Budget (APBD), which serves as a basis for assessing financial performance.

In the context of intergovernmental fiscal relations, agency theory explains the relationship between local governments (agents) and the public or legislature (principals). Local governments must plan revenue and expenditures realistically to achieve fiscal balance. In Bali Province, an economy highly dependent on tourism significantly impacts fluctuations in PAD, regional expenditure, and dependency on transfer funds.

PAD reflects the level of fiscal independence of a region and is derived from local taxes, service charges, and management of regional assets. Badung Regency stands out with the highest PAD contribution, primarily driven by the tourism sector. However, many other regions remain reliant on transfer revenue from the central government. The effectiveness of tax collection and expenditure management are crucial for increasing PAD (Gusti et al., 2023).

Transfer revenue from the central government, through General Allocation Funds (DAU), Special Allocation Funds (DAK), and Village Funds, continues to be a major source of regional financing. These transfers are essential to reduce fiscal disparity and promote equitable development across regions. However, the heavy reliance on these funds reflects suboptimal PAD generation in many regencies/cities in Bali.

Regional expenditure represents the government's responsibility in providing public services and infrastructure. Efficient spending is a sign of successful development implementation. However, budget realization data indicate that most regions experience a gap between planned and actual expenditures, suggesting challenges in budget implementation.

Observations of PAD, transfer revenue, and regional expenditure trends from 2019 to 2023 reveal that regencies and cities in Bali Province have not yet achieved full fiscal autonomy. This is evidenced by the dominance of transfer revenue in the revenue structure and expenditure levels exceeding PAD. This imbalance highlights the need for strategic efforts to strengthen local potential in order to achieve healthier and more sustainable financial performance.

This study aims to empirically analyze the impact of PAD, transfer revenue, and regional expenditure on the financial performance of local governments in Bali. Given the critical role of these variables in supporting regional fiscal functions, this research is expected to contribute to the formulation of more effective and fiscally independent regional financial management policies.

Table 1. Realization of Original Regional Income (PAD) of Regencies/Cities in Bali Province 2019–2023 (in Billions of Rupiah)

Regency/City	2019 Budget	2019 Realization	2020 Budget	2020 Realization	2021 Budget	2021 Realization	2022 Budget	2022 Realization	2023 Budget	2023 Realization
Jembrana	134.868	133.699	126.941	148.045	145.730	185.003	159.147	175.993	217.055	221.558
Tabanan	398.220	354.558	370.463	313.043	413.055	362.315	510.196	436.408	613.369	510.607
Badung	5.312.501	4.835.188	2.701.549	2.116.980	1.972.103	1.750.345	3.198.774	3.705.745	6.534.295	6.308.865
Gianyar	1.031.347	997.378	881.018	545.870	757.609	430.172	1.191.194	857.554	1.772.180	1.479.338
Klungkung	226.078	225.064	217.894	220.892	265.151	254.494	261.681	309.462	352.326	350.537
Bangli	136.168	127.040	104.796	104.325	119.586	163.537	147.126	144.006	255.527	219.919
Karangasem	220.797	233.013	207.905	219.235	219.881	252.692	253.885	301.332	318.458	381.241
Buleleng	444.112	365.596	335.073	318.987	395.236	391.988	476.658	410.565	466.449	460.500
Denpasar	220.797	1.010.779	207.905	731.261	219.881	792.362	253.885	888.052	318.458	1.198.372

Source: BPKAD Regency/City in Bali Province (2024), processed

Based on Table 1, it can be seen that Badung Regency consistently has the highest PAD realization in Bali Province, with a significant spike in 2023 reaching more than IDR 6 trillion. This shows that Badung has high fiscal independence because it is able to optimize revenue

from the tourism sector, such as hotel and restaurant taxes. Meanwhile, other regencies/cities such as Denpasar, Gianyar, and Buleleng also show an increasing trend in PAD, although they have not been able to exceed their dependence on transfer income. The gap between PAD and regional spending in most regions reflects the still low fiscal capacity of the region, so that dependence on central transfer funds remains high. This condition indicates the need for strategic efforts to increase the effectiveness of local resource management so that regional financial performance is increasingly optimal and independent.

2. METHOD

This study uses a quantitative approach with an associative method to analyze the effect of Local Original Income (PAD), Transfer Income, and Regional Expenditure on the Financial Performance of local governments in 9 districts/cities in Bali Province during the 2019–2023 period with a total of 45 observations. The object of the study is a budget realization report, with an identical population and sample because it uses a saturated sample method. The data used are secondary and collected through non-participant observation of official documents from BPKAD and other literature sources. The sampling method used in this study is a saturated sample, where all populations are sampled. The analysis technique used is Multiple Linear Regression Analysis.

The independent variables in this study are PAD (X1), Transfer Revenue (X2), and Regional Expenditure (X3), while the dependent variable is Financial Performance (Y) which is measured through the ratio of regional revenue growth. The analysis techniques used include descriptive statistics, outlier tests, classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity), and multiple linear regression analysis with the equation $Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \varepsilon$. Hypothesis testing is carried out using the t-test for partial effects, the F-test for model feasibility, and the coefficient of determination (Adjusted R^2) to determine the contribution of independent variables to the dependent variable.

The results of the study are expected to provide an empirical picture of the relationship between regional income and expenditure components to financial performance, as well as being the basis for consideration in making more efficient and accountable regional fiscal policies. This study also strengthens the urgency of effective public financial management as a foundation for sustainable regional development.

3. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Results of Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Locally-generated revenue	45	104.325.150.582	6,308,865,160,074	798.755.902.351	1,235,801,282,997

Transfer Income	45	828,354,988,453	1,829,591,780,269	1,135,170,079,407	273.196.621.061
Regional Shopping	45	845,706,694,909	5,660,691,277,086	1,833,567,038,774	950.915.211.700
Financial performance	45	-0.325	0.702	0.043	0.179
Valid N (listwise)	45				

Source: Processed data, appendix 2 (2025)

1) Local Original Income (PAD) shows that there is a significant difference between regions with the highest and lowest PAD. The average PAD is IDR 798.75 billion, but the very high standard deviation (greater than the mean) indicates that there is a large gap in the ability of regions to generate PAD. Some regions may have much larger sources of income than others, while regions with low PAD are likely to still be very dependent on transfer funds from the central government.
2) Transfer revenue has a higher average compared to PAD, which is around Rp1.135 trillion. The data indicates that most regions still rely on transfer funds from the central government to finance regional operations and development. The relatively smaller standard deviation compared to PAD indicates that the distribution of transfer revenue is more even among regions, meaning that there is no extreme difference in the receipt of transfer funds between regions.
3) Regional spending has a value greater than the average PAD and transfer income, with an average of Rp 1.833 trillion. The data shows that regions allocate large amounts of funds for spending. The high standard deviation indicates significant differences in regional spending.

Classical Assumption Test

Normality Test

Table 3. Normality Test Results

		Unstandardized Residual
		45
Normal Parametersa,b	Mean	0,000
	Std. Deviation	0.118
Most Extreme Differences	Absolute	0.112
	Positive	0.104
	Negative	-0.112
Test Statistics		0.112
Asymp. Sig. (2-tailed)c		0.194

Source: Processed data, appendix 3 (2025)

Based on the results of the normality test, (Kolmogorov-Smirnov test) it can be seen that the Asymp. Sig. (2-tailed) value is 0.194. This figure shows that the significance value is greater than 0.05. It can be concluded that the data in this study are normally distributed.

Outlier Test

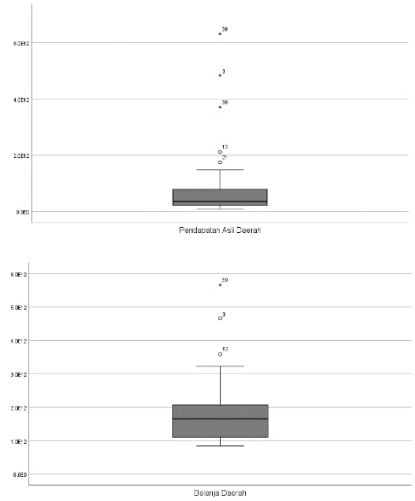

Figure 1. Outlier Test Results

Source: Processed data, appendix 4 (2025)

In this study, an analysis was conducted on the data of Local Original Income, Transfer Income and Regional Expenditure using boxplot to identify outliers. Based on Figure 1, it was found that observation data with numbers 39 and 3 were outliers that were far outside the interquartile range, as indicated by the asterisk (*). The existence of these extreme values can affect the data distribution and the results of the regression analysis. To overcome this, two outlier data were removed, namely observations number 39 and 3. The number of samples which was originally 45 observations was reduced to 43 observations. This step was taken to ensure that the analysis carried out could produce more accurate results and was not affected by extreme data. After removing the outliers, another classical assumption test was carried out to ensure that the data distribution met the assumptions required in the statistical analysis used in this study.

Multicollinearity Test

Table 4. Multicollinearity Test Results

No	Variables	Tolerance	VIF
1	Locally-generated revenue	0.175	5,702
2	Transfer Income	0.541	1,850
3	Regional Shopping	0.171	5,857

Source: Processed data, appendix 5 (2025)

Based on Table 4, it can be seen that the tolerance and VIF values of the regional original income, transfer income and regional expenditure variables show that the tolerance value for each variable is greater than 0.1 and the VIF value is less than 10, which means that the regression equation model is free from multicollinearity.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model Summaryb					
Model	R	R Square	Adjust R Square	Std. Error of the Estimate	Durbin-Watson
1	0.719a	0.517	0.479	0.108	1,765

Source: Processed data, appendix 6 (2025)

On Table 5 shows that the Durbin-Watson value (d-count) is 1.765. With a significance of 0.05 and N = 43 and the number of independent variables k = 3, the du value is obtained = 1.6632, the value (4-du) is obtained as 4 - 1.6632 = 2.3368. So that the Durbin Watson value in the regression model of this study is between the du and 4-du values, namely 1.6632 <1.765 <2.3368. From the results of the analysis, it can be concluded that this study is free from autocorrelation problems.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Coefficientsa

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.077	0.054		1,421	0.163
	Locally-generated revenue	-4,157	0,000	-0.365	-0.996	0.325
	Transfer Income	-7,920	0,000	-0.288	-1,381	0.175
	Regional Shopping	6,840	0,000	0.561	1,511	0.139

Source: Processed data, appendix 7 (2025)

In Table 6 it can be seen that the significance value ofThe variables of local revenue, transfer revenue and regional expenditure show a significant value greater than 0.05, which means that there is no influence between the independent variables on the absolute residual. These results indicate that there are no symptoms of heteroscedasticity.

Multiple Linear Regression Analysis

Table 7. Results of Multiple Linear Regression Analysis

Coefficientsa

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.044	0.081		-0.549	0.586
	Locally-generated revenue	4,413	0,000	1,774	7,063	0.001
	Transfer Income	4,450	0,000	0.742	5,185	0.001
	Regional Shopping	-4,107	0,000	-1,544	-6,064	0.001

Source: Processed data, appendix 8 (2025)

Based on the results of the regression analysis, such asti presented in Table 7, then the following equation can be made:

$$\mathbf{Y=-0.044 + (4.413)X1 + (4.450)X2 - (4.107)X3 + e}$$

The results of the equation show the magnitude and direction of the influence of each variable.l free and bound. A positive regression coefficient means it has a unidirectional influence, while a negative coefficient means it has a disdirectional influence. Based on the multiple linear regression equation, the coefficients can be explained as follows:

1) The constant value of -0.044 indicates the initial value of the dependent variable Y when all independent variables (X1, X2, X3) are zero. This means that if there is no influence from the independent factors in the model, then the basic value of Y is -0.044. This value is important because it provides an overview of the starting point without the influence of other variables.

2) The coefficient value of local original income (X1) which is 4.413 shows that every one unit increase in X1 will increase the value of Y by 4.413, assuming other variables remain constant.
3) The value of the transfer income coefficient (X2) which is 4.450 indicates that every one unit increase in X2will increase the Y value by 4.450, with the note that other variables remain constant. This shows that transfer income has a slightly greater contribution to changes in financial performance than local revenue.
4) The value of the regional spending coefficient (X3) is -4.107, this coefficient has a negative sign, which means that every one unit increase in X3will decrease the Y value by -4.107. This means that there is a negative relationship between regional spending and financial performance, where an increase in regional spending actually causes a decrease in financial performance.

Hypothesis Testing

Table 8. t-Test Results

Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	-0.044	0.081		-0.549	0.586
	Locally-generated revenue	4,413	0,000	1,774	7,063	0.001
	Transfer Income	4,450	0,000	0.742	5,185	0.001
	Regional Shopping	-4,107	0,000	-1,544	-6,064	0.001

Source: Processed data, appendix 8 (2025)

Based on Table 8 shows that the independent variables of local revenue, transfer revenue and regional expenditure have a significance value of 0.001 where the value is smaller than 0.05, it can be concluded that local revenue, transfer revenue and regional expenditure have a significant effect on financial performance. The local revenue variable has a beta value of 4.413 which indicates that local revenue has a positive effect. The transfer revenue variable has a beta value of 4.450 which indicates that transfer revenue has a positive effect. The regional expenditure variable has a beta value of -4.107 which indicates that regional expenditure has a negative effect.

Model Feasibility Test

Table 9. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.648	3	0.216	17,127	0.001b
	Residual	0.492	39	0.013		
	Total	1,140	42			

Source: Processed data, appendix 8 (2025)

Based on Table 9, the test results show a significant value of 0.001, which is smaller than 0.05. This result means that the model in this study is feasible to use.

Coefficient of Determination Test

Table 10. Results of Determination Coefficient Analysis

Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.754a	0.568	0.535	0.112

Source: Processed data, appendix 8 (2025)

The magnitude of the influence of the independent variable on the dependent variableindicated by the determination value (Adjust R Square) of 0.535 or 53.5 percent. This figure means that the variables of Regional Original Income, Transfer Income, and Regional Expenditure significantly influence the financial performance variable by 53.5 percent and the rest is influenced by other variables outside this study by 46.5 percent.

4. Conclusions

a. Local revenue has a positive effect on the financial performance of local governments in the Regency/City in Bali Province. The results of the study indicate that the greater the PAD obtained by a region, the better the financial performance of the local government.
b. Transfer income has a positive effect on the financial performance of local governments in the Regency/City in Bali Province. The results of the study indicate that high transfer income will improve the financial performance of local governments.
c. Regional spending has a negative effect on the financial performance of the local government of the Regency/City in Bali Province. The results of the study show that high regional spending will reduce the financial performance of the local government.

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