-RESEARCH ARTICLE-

ANALYSIS OF LOCAL OWN REVENUE AND BALANCING FUNDS ON THE FINANCIAL PERFORMANCE OF DISTRICTS AND CITIES IN THE REGION OF EAST JAVA PROVINCE

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─**Abstract**─

Regional Original Income (PAD) and Balanced Fund are indicators of Regional Income which are used as benchmarks for measuring the level of independence of an area. The higher the level of Regional Original Revenue (PAD) realization, the higher the possibility of a region being able to finance financing in its region. Conversely, the higher the realization of the Balancing Fund in a region, the higher the level of possibility that the region will depend on the central government. The purpose of this study is to analyze local revenue and balance funds on the financial performance of districts and cities in the province of East Java. The data analysis method used is multiple linear regression analysis by looking at the partial influence of the Local Own Income and Balanced Fund variables on the financial performance. The results of the study indicate that the Regional Original Income (PAD) has no significant effect on the financial performance of local governments either. Balanced funds have a significant effect on financial performance. Regional Original Income (PAD) has no significant effect on government financial performance, which means that an increase in Regional Original Income (PAD) is not able to improve the financial performance of local governments. Meanwhile, the Balancing Fund has a negative effect on the financial performance of the regional government which results in an increase in the Balancing Fund which reduces the financial performance of the regional government.

Keywords: Local Own Revenue, Balancing Funds, Financial Performance

JEL Classification: H53, H54, H11

1. INTRODUCTION

The economic development process starts from laying out a strong foundations buid on sound economic policies. The sound economic plicies in turn spurs economic development, reoves the ineffeciencies n the system and hence improve the overall situation of people in the country. The success of these policies criticall hinges on the trust between regional and the central government. The strong economies policies in isolation is insignificant in larger benefits of the country. In essence, to get successful results from the initiated policies, the central governments need strong cooperation from the regional governments. It also requires the regional governments to set aside their political differnces aside and work towards achieving their common goals of economic prosperity of the nation.

The architype of decentralizing the responsibilities of managing the finances to region themselves have experienced notable dynamics over the years followed by the execution of regional autoomy since 2001. The underlying reason for introducing regional financial management is to assist in the public welfare and was implemented to introduce community welfare. The regional financial management comprise of preparation,

execution, reporting, liability and the management of all the finances related to regions (Ulfa, 2013). The execution of regional financial management is supported by a system which is vey well integrated and structured and built on the guidelines provided in the Annual Regional Government Budget (APBD). The financial management system prvided in the annual budget of the regions is supposed to be focused on the best interest of public and articulated with an approach to benchmark the performance of regions. Th regional financial management should outline the resposibities of each involved parties and supposed to work closely with the policymakers at the regional level to come up with the guidleines taking into account the specific issues related with each region. These regulations or the guidelines must be developed keeping in mind its linkage with the APBD and the policies and the procedures related with the financia management system of each regions. Most of the financial management system at the regional level is executed by employing the performance approach of output orientation (Korompot et al., 2017). Moreover, time value of money and the good governance principles are also the integral part of regional financial management execution strategy. The performance of the central government is assessed through its determination of budget allocated to each region based on the requirements of each region. The allocated budget is expected to provide the regional people and the communities with the better services (J. Vernon Henderson et al., 2011; Putri et al., 2020). The key asepects of regional financial management includes but not limited to spending and the income patterns. For instance, shoppig is a crucial aspect of a community in order for them to attain the desired level of prosperity. Along the similar lines, income aspect becomes key in a function of organizing and managing it which can come from potentially a fertile area. The past expenditure data of a particular region is a key determining factor of the financial budget of regions. The specific data of past expenditures include but not limited to personal, capital, goods and the services as well as some other miscelleneous expenditure of a region. These historical data on specific component is an interal part of preparation of regional financial budget.

The ministry of home affairs circular number 13 (2006) clearly states that the expenditures related to capital investment is a crucial part of expenditures of group that is related with the framework of investments in the tangible assets. The value of these tangible assets are assessed on the its value creatin to the government activities (J Vernon Henderson et al., 2004; Kuncoro, 2006; Praza, 2016). On the other hand, the most aspect of the spending is the capital as it affects the level of economic development in the region and would have significant contributions to the increase in regional economic prosperity. This information is significant as the regional governments receive share of financial budget based on its growth trajectory and the regional people needs. This further strenghthen the growth prospects of that region through efficient capital movement via capital spending. Numerous empirical research have demonstrated that the factors determining the capital expenditure on the regional government, the local government is driven by several statistics. For instance, the key deciding factors of the regional budget

allocation are the dependence ratio and the effectiveness and the effeciency of Regional Original Income (PAD). In fact, financial performance is found to be positively linked with the capital spending (Prihastuti et al., 2015). Along the similar lines, empirical findings presented by Doh-Nani et al. (2012) indicate te expenditure of a country is directly reated wth the income. Furthermor, capital spending is claimed to be one of the most important factor in driving economic growth (Amuka et al., 2016). These capital spending includes infrastructure investments, issuance of debt instruments and capital allocation for regional financial management (Bojanic, 2013). On the other hand, Suyitno (2020) showed empirically that the amount of capital spending is directly reated to the level of economic development in a country. Most of these capital spending initiaties are linked to improving public reesources and the institutions (examples of public resurces are pubic transport, pubic scools and universities and the public healthcare system) and hence spur economic development in a country (Triyanto et al., 2017; Venkataraman et al., 2017). Howeer, there is trade-off between public spending and the public debt and that is the very reason why governments wish to have a complete control on the budget. The large amount of public spending can have a huge burden on the goverments and it is important to keep the pubic spending in control and hence avoid the situation of huge bugdet deficit. The budget deficit of a country needs to be funded by certain source of revenue and in case no such source of funds are available, the governments can default on its obligations (Nwosu and Okafor, 2014). These situations can have a long term effect on the country, especially through downgrading of the sovereign credit rating. However, the dilemma that a country goes through is that the insufficient can have little or no impact on the economic development of a contry. So, the local governments always try to find an optima balance between capital expeditue and the level of public debt (Egbetunde et al., 2014). One of the ways to put spending to a more efficient use is to allocate them for the infrastructure projects (Arsa et al., 2015). One of the critical that a government looks at while allocating the budget to different regions is the financial performance of that particular region (Indiyanti et al., 2018). In essence, a good financial performance at a regional level can impact the share of capital spending for public resources (Riswan et al., 2014). In other words, a downward change in the financial performance can also lead to downward change in the allocation of capital spending to a region. This change is well documented by Prihastuti et al. (2015). This aspect captures the level of regional autonomy as reflected by the ratio between level of regional income and the PAD that is generated from the central assiatance, state assistance and the loans. Along the same lines, it is also documented that the positive and the significant association exists between the leve of fianancial independence and the capital spending. Additionally, several empirical findings have also argued and documented that there is a significant association between Regional Original Revenue (ROR) and General Allocation Funds (GAFs) in predicting the level of capital expenditure budget allocated to the reginal financial management. Law No. 32 of 2004 concerning Regional Government and Law no. 33 of 2004 concerning Financial Balance between the Central and Regional Governments as the basis for the implementation of

regional autonomy. The main mission of the two laws is decentralization. Decentralization does not only mean the transfer of authority from the central government to lower governments, but also the transfer of some authority from the government to the private sector in the form of privatization (Mardiasmo, 2002). The implementation of decentralization is related to the central government and regional governments, one of which is the formation of autonomous regions and the transfer of power legally from the central government to regional governments to manage their respective governments. In line with the objectives of autonomy and outcomes, the preparation of the APBD aims to harmonize macroeconomic policies and available resources, allocate appropriately according to government policies and prepare conditions for the implementation of regional budget management, namely guiding the independence of a region so that efforts must be made by local governments to optimize improvements. Original Regional Revenue (PAD) and sources of funds for regions in the framework of financing regional government operational activities through regional original income from local taxes and levies, and regional sources of funds through balancing funds, namely general allocation funds, special allocation funds, and transfer income. Regional Original Income (PAD) is income that comes from economic activity itself. Regional Original Income (PAD) is one of the pillars of a region's independence. Law Number 33 of 2004 concerning financial balance between the central and regional governments, the source of PAD consists of regional taxes, regional levies, regional wealth management results, and other legal regional revenues. Therefore, the ability of a region to explore PAD will affect the development and development of the area. In addition, the greater the PAD contribution to the APBD, the less dependence on central government assistance will be. This is because PAD can be used according to the will and initiatives of the regional government for the smooth running of its regional affairs (Bastian, 2001). Apart from Regional Original Income (PAD), the Balancing Fund is also a source of regional revenue that has a major contribution to the APBD structure.

Law No. 33 of 2004 states that Balancing Funds are funds sourced from APBD revenues allocated to regions to finance regional needs in the context of implementing this decentralization. The management and accountability of regional finances have been stipulated in Government Regulation No. 58 of 2005 which confirms that regional financial management must be carried out in an orderly manner, obeying the prevailing laws and regulations, efficient, effective, transparent, and responsible with due observance of justice and compliance (Bastian, 2001). If regional management is carried out properly in accordance with the stipulated regulations, it will certainly improve the performance of the local government itself. Based on the findings of audit evidence, it is still seen that the financial performance of local governments is still poor and can be judged to be not good, for that we need a study on "Analysis of Regional Original Income and Balancing Funds on the Financial Performance of Districts and Cities in the Region of East Java Province". One of the instruments for assessing the performance of local governments in managing regional finances is by performing a financial ratio against the

APBD that has been determined and passed. Abdullah (2004) states that regional financial management is transparent, honest, democratic, effective, efficient, and accountable, one of which is by using the ratio of regional financial independence. This ratio shows the financial capacity of local governments to finance themselves. government activities, development, and services to the community, as measured by the ratio of Regional Original Income (PAD) to the amount of central government assistance and loans. So that it can be seen the level of regional capacity in achieving regional revenue targets.

In the current era of fiscal decentralization, it is hoped that an increase in services in various sectors, especially the public sector, with an increase in services in the public sector can increase the attractiveness of investors to invest in the regions. Therefore, a shift in the composition of expenditure is a logical effort made by the Regional Government in order to increase the level of public confidence which can be done by increasing capital investment in the form of fixed assets, namely equipment, buildings, infrastructure and other fixed assets. Based on the analysis results in the tourism sector to develop pro poor tourism, especially in rural areas. Economic growth is the process of changing the economic conditions of a country on an ongoing basis towards a better state during a certain period. Economic growth can also be interpreted as a process of increasing the production capacity of an economy which is manifested in the form of an increase in national income. According to Adi (2007), the economic growth that has occurred is largely determined by regional development spending factors. The development of infrastructure and public facilities can improve the quality of services to the community and can attract investors. As argued and explained above, the relationship between PAD, balance effect fund and the regional financial performance as it has several implications for that particular region, especially when the central government decides on th budget allocatin of those regions. Based on the argument, this paper explores following to questions:

Based on the above presented arguments, this paper explores following research questions:

1. Does PAD affect the regional financial performance in East Java Province?

2. Does the balance fund affect the regional financial performance in East Java Province?

The key findings of the paper can be summarized as follows First, the effect of PAD n the regional financial performance in regencies and cities throughout East Java is not significant (the t-statistics of PAD is 1.747 (<1.96)). The original sample estimate value is negative, which is -0.392 which indicates that the direction of the relationship between PAD and regional financial performance is negative. Eve tough the coefficient is negative but it is not significant.

Second, the effect of fund balance is negative on the regional financial performance. More importantly, the t-statistics of fund balance is 2.418 (> 1.96). The t-statistics of of 2.418 implies the coefficient of fund balance to be significant. The coefficient is negative, which is -0.125 which indicates that the direction of the relationship between the balance funds and financial performance is positive.

It can be interpreted that the Local Own Income Variable has an insignificant and negative relationship. This shows that the increasing amount of Regional Original Revenue received by several City Regencies in East Java has a negative effect on economic growth. Locally-generated revenue. The results of this study support the research of Mardiasmo (2004), which states that local revenue is obtained from the local tax sector, regional levies, regional-owned company results, separated regional assets management results and other legitimate regional income. From the source, it can be seen that the collection of local taxes and levies actually results in regional output which is reflected in the GRDP generated by various income sectors in the City District not running optimally. Additionally, the balancing fund, which includes Tax and Non-Tax Profit Sharing Funds as well as DAU and DAK, is a transfer fund from the central government to regional governments with the aim of financing excess regional spending. If the realization of regional expenditure is higher than regional income, there will be a deficit. Therefore, to cover the shortfall in regional spending, the central government will transfer funds in the form of Balancing Funds to Regional Governments. The greater the transfer of Balanced Funds received from the central government, the stronger the regional government will depend on the central government to meet their regional needs. So that it will make the government's financial performance decreases.

In the following section, the paper provides an overview of literature. The literature review section describes the work in the area of locally generated revenue, balancing fund and the regional financial performance. In Section 3, the paper outlines the research approach. The section also describes the research limitations of the paper. Additinally, the paper also elaborates on the data collection process. Finally in the section, the paper also touches on the quantitative analysis approach used in the paper. As the paper uses the approach of Partial Least Square (PLS) regression, the section brefly describes the approach of PLS regression. The Section 4 presents the findings and also discusses the results. Moreover, the section also provides the implications of the research findings. Finally, the paper is concluded in the Section 5. The sections provides the overview of the paper and discuss the implicatins of the results. It also clearly identifies the directions for future research. This paper clearly adds to the extant literature on the topic and has some interesting insights for the academc community, industry players and the policymakers.

2. LITERATURE REVIEW

The Tanjung Regional Revenue and Expenditure Budget (2012: 89) argues that the budget is a guideline for actions to be carried out by the government including income, expenditure, transfer and financing plans which are measured in rupiah units in rupiah units, which are systematically arranged according to certain classifications for a period . Based on Law Number 32 of 2004 the regional revenue and expenditure budget is an annual regional government financial plan which is stipulated by a regional regulation. The budget is an articulation of the results of the formulation and strategy and strategic planning that is made. The regional revenue and expenditure budget is based on Regulation of the Minister of Home Affairs Number 13 of 2006, concerning the guidelines for regional financial management, article 15 paragraph 3, which states that the APBD has the functions of authorization, planning, supervision, distribution allocation and stabilization. APBD describes all forms of local government activities in finding sources of revenue.

2.1 Locally-generated revenue

According to (Mardiasmo, 2004), local revenue is revenue obtained from the local tax sector, regional levies, proceeds from regionally owned companies, the results of the management of separated regional assets, and other legitimate local revenue Optimization of PAD revenues should be supported by local government efforts to improve the quality of public services. Excessive exploitation of PAD will in fact increasingly burden the community, become a disincentive for the region and threaten the macro economy.

Lewis and Oosterman (2011) The ineffectiveness of various regulations implemented by the government may indicate that there is no positive relationship between the various new levies and the seriousness of local governments in improving the quality of public services. There needs to be an appropriate regional regulation policy to collect the levies that will be carried out by local governments. PAD as the main source of income for the region. PAD is divided into three categories, namely local taxes, fines and levies, and regional company income. In general, it is the central government that determines the taxes that can be collected by local governments. The second category of Regional Original Revenue is fees, fines, and licenses. This source of income is tied to a person to pay for certain services he uses. Local governments charge fees for services and licenses that have been provided. from local original income from utilities and regional companies. Regional companies earn income through charging fees for the goods and services they offer. So Regional Original Revenue is the regional government through its efforts to fulfill regional obligations, one of the goals is to increase the economy which is expected to have an impact on improving the quality of life of its people. In order to fulfill these objectives, the government is expected to have its own financial

system both in terms of income and expenditure does not depend on the central government.

2.2 Balancing Fund

Based on Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, "Balancing Funds are funds sourced from APBN revenues allocated to Regions to fund Regional needs in the context of implementing Decentralization". The Balanced Fund aims to reduce the fiscal gap between the Government and Regional Governments and between Regional Governments. The balancing fund consists of:

1. Profit Sharing Funds, Syarifin and Jubaedah (2005) are funds sourced from the APBN allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization ".

2. The General Allocation Fund, Syarifin and Jubaedah (2005) is a fund sourced from the APBN which is allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization.

3. Special Allocation Funds, Syarifin and Jubaedah (2005) are funds sourced from APBN revenues allocated to certain regions with the aim of helping finance special activities which are regional affairs and in accordance with national priorities ".

2.3 Regional financial performance

Bastian (2001) is a description of the level of achievement of the implementation of an activity / program / policy in realizing the goals, objectives, vision and mission of an organization owed in the formulation of an organization's strategic scheme. In general, it can also be said that performance is an achievement that can be achieved by an organization within a certain period, whereas according to Inpres No. 7 of 1999 concerning the performance accountability of government agencies, performance is a description of the level of achievement of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization. The objectives are to: 1) measure the financial performance of the regional government of East Java Province from the Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Efficiency Ratio for the last three years (2013-2015), and 2) determine the regional financial capacity of the East Java Provincial Government for the fiscal year 2013-2015 is measured through APBD share and growth, Financial Capability Index (IKK) and Regional Financial Capability Map.

3. RESEARCH METHODS

This approach uses qualitative and quantitative approaches. The qualitative approach 'is research on research that is descriptive in nature and tends to use analysis. Process and

meaning (subject perspective) are emphasized more in qualitative research. The theoretical basis is used as a guide so that the focus of the research is in accordance with the facts in the field.

4. RESEARCH LIMITS

The research sample is determined by purposive random sampling is a method of determining the sample based on certain criteria in order to meet the requirements of a good sample. The research assumption uses the collection of certain information data from Bapeda East Java.

4.1 Data Collection and Retrieval Procedures

A portion of the population whose characteristics are to be investigated and are considered to be representative of the entire population. This tolerable error limit for each population is not the same, because the performance in each region of East Java Province is different by 29 districts and 9 cities, where the entire population is filtered based on predetermined financial data, because to understand how the APBD structure affects regional financial performance and economic growth. This research data collection technique through several procedures as follows:

1. Library studies, namely studying the literature, especially regarding PAD and Routine Expenditures on regional financial performance so that it can discuss or solve what has been previously stated.

2. Field studies, conducted through Bapeda East Java Province, field studies aim to determine the economic growth of the East Java Province in accordance with the variables studied.

APBD data obtained from BAPEDA of East Java Province is an efficient data collection technique if the researcher knows exactly what variables to measure and what can be expected from the APBD data. In addition, in quantitative research, researchers will use instruments for data collection, whereas in qualitative-naturalistic research researchers will be more of an instrument, because in qualitative research the researcher is the key instrument. Because the research instrument will be used to make measurements with the aim of producing accurate quantitative and qualitative data, each APBD structure must have accurate data. Various APBD structures were analyzed, namely various APBD structures that could be used for research.

4.2 Quantitative Analysis

Analysis of the data in this study using the PLS (Partial Least Square) regression and version 3.0 application program M3 PLS (Partial Least Square) was first developed by Wold as a general method for estimating the path model using a latent construct with a mutype indicator. PLS (Partial Least Square) is an indeterminacy factor for a powerful

analysis method because it does not assume that the data must be measured at a certain scale, the number of samples is small. PLS (Partial Least Square) can also be used to confirm the theory (Abdi, 2003).

The objective of the PLS is to accurately predict the values of Y based on the input from predictors – Xs. However, there are several issues with some of the components of PLS. However, Principal Component Analysis (PCA) has been advocated to overcome the issues by eliminating some of the predictors.

Technically speaking, in the PCA component, Xs are further decomposed in the singular value decoposition:

$$X = S\Delta V^T \tag{1}$$

$$S^T S = V^T V = I \tag{2}$$

In the above equations, X is predictor variable, S is the singularly vectors column of S. Δ is the diagonal matrix representig the PCA.

5. RESULTS AND DISCUSSION

In Table 1 presented below, the results are provided from the Partial Least Squares.

Table 1: *Path Coefficients* (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Hypothesis
Regional real income -> Financial Performance	-0.392	-0.394	0.225	1.747	0.081	Not Sig
Balance Funds -> Financial Performance	-0.125	-0.048	0.359	2.418	0.017	Sig

It can be interpreted that the Local Own Income Variable has an insignificant and negative relationship. This shows that the increasing amount of Regional Original Revenue received by several City Regencies in East Java has a negative effect on economic growth. Locally-generated revenue. The results of this study support the research of Mardiasmo (2002), which states that local revenue is obtained from the local tax sector, regional levies, regional-owned company results, separated regional assets

management results and other legitimate regional income. From the source, it can be seen that the collection of local taxes and levies actually results in regional output which is reflected in the GRDP generated by various income sectors in the City District not running optimally.

H2: There is a significant effect of balancing funds on regional financial performance in districts and cities throughout East Java

Fund balance to financial performance is significant with a t-statistic of 2.418 (> 1.96). The original sample estimate value is negative, which is -0.125 which indicates that the direction of the relationship between the balance funds and financial performance is positive.

The Balancing Fund, which includes Tax and Non-Tax Profit Sharing Funds as well as DAU and DAK, is a transfer fund from the central government to regional governments with the aim of financing excess regional spending. If the realization of regional expenditure is higher than regional income, there will be a deficit. Therefore, to cover the shortfall in regional spending, the central government will transfer funds in the form of Balancing Funds to Regional Governments. The greater the transfer of Balanced Funds received from the central government, the stronger the regional government will depend on the central government to meet their regional needs. So that it will make the government's financial performance decrease.

6. CONCLUSIONS

As stated above, PAD is one the critical cornerstone of a regional financial independence. The Law Number 33 (of 2004) deals with the financial balance between the central and the regional or the provincial governments. The source of PAD comprises of regional taxes, regional levies, regional wealth management results, and other legal regional revenues. Hence, the capability of a region to explore PAD will affect the development and development of the area. Similarly, the greater the PAD contribution to the APBD, the less dependence on central government assistance will be. This is because PAD can be used according to the will and initiatives of the regional government for the smooth running of its regional affairs (Bastian, 2001). In addition to Regional Original Income (PAD), the Balancing Fund also adds significantly to the regional revenue and is an important and crucial source of regional revenue and contributes significantly to the structure of APBD.

Moreover, the Law No. 33 (of 2004) also maintains that the balancing funds are funds sourced from APBD revenues allocated to regions to finance regional needs in the context of implementing this decentralization. The planning, management, implementation and the accountability of regional finances are explained in great detail in the Government Regulation No. 58 of 2005 which confirms that regional financial management must be carried out in an orderly manner, obeying the prevailing laws and

regulations, efficient, effective, transparent, and responsible with due observance of justice and compliance (Bastian, 2001). If the regional financial management is executed in accordance to what it stipulated in the polices and the procedures outlined in the issued regulations, this is certainly expected to bring the better regional financial performance and hence improving the financial performance of the regional or the provincial government also.

The evidence based on te prevailing research audit findings indicate that the financial performance of local governments is still poor and can be judged to be not good, for that we need a study on "Analysis of Regional Original Income and Balancing Funds on the Financial Performance of Districts and Cities in the Region of East Java Province". One of the instruments for assessing the performance of local governments in managing regional finances is by performing a financial ratio against the APBD that has been determined and passed. Abdullah (2004) states that regional financial management is transparent, honest, democratic, effective, efficient, and accountable, one of which is by using the ratio of regional financial independence. This ratio shows the financial capacity of local governments to finance themselves. government activities, development, and services to the community, as measured by the ratio of Regional Original Income (PAD) to the amount of central government assistance and loans. So that it can be seen the level of regional capacity in achieving regional revenue targets. Based on the above arguments and evidence presented so far, it is clear how important it is to determine the factors affecting the regional financial performance. In light of the extant literature and the importance of exploring the regional financial performance, this study examines the "analysis of the APBD structure on regional financial performance and economic growth in regencies and cities in East Java". Based on the research results it was found that:

1. PAD on regional financial performance in regencies and cities throughout East Java is not significant with a t-statistic of 1,747 (<1.96). The original sample estimate value is negative, which is -0.392 which indicates that the direction of the relationship between PAD and regional financial performance is negative.

2. Fund balance to financial performance is significant with a t-statistic of 2.418 (> 1.96). The original sample estimate value is negative, which is -0.125 which indicates that the direction of the relationship between the balance funds and financial performance is positive.

It can be interpreted that the Local Own Income Variable has an insignificant and negative relationship. This shows that the increasing amount of Regional Original Revenue received by several City Regencies in East Java has a negative effect on economic growth. Locally-generated revenue. The results of this study support the research of Mardiasmo (2004), which states that local revenue is obtained from the local tax sector, regional levies, regional-owned company results, separated regional assets management results and other legitimate regional income. From the source, it can be

seen that the collection of local taxes and levies actually results in regional output which is reflected in the GRDP generated by various income sectors in the City District not running optimally.

Additinally, the balancing fund, which includes Tax and Non-Tax Profit Sharing Funds as well as DAU and DAK, is a transfer fund from the central government to regional governments with the aim of financing excess regional spending. If the realization of regional expenditure is higher than regional income, there will be a deficit. Therefore, to cover the shortfall in regional spending, the central government will transfer funds in the form of Balancing Funds to Regional Governments. The greater the transfer of Balanced Funds received from the central government, the stronger the regional government will depend on the central government to meet their regional needs. So that it will make the government's financial performance decreases.

As is the case with all the reseearc that not all the uestions can be answered in one research paper, this paper also has several limitations and hence provides opportunities and the directions for the future research. First, the study has also only utilized the one measure of regional financial performance and hence using multiple proxies of reginal financial performance can provide more insights to the policymakers. In other words using more than one measure of regional financial performance can give more assurity to the policymakers on formulating policies to further tackle the issues reated to the regional financial performance. Therefore the future researchers are advised to employ additional indicators of regional financial management.

More importantly, this piece of research is limited to only certain cities which can be overcome by the future researchers. Finally, the future research can utilize longer data series to provide more accurate pictures. In other words, adding more data based on cities and the number of years can provide results that are more accurate and not biased to the specific city or even the specific time period. These future directions for the research can be of great assistance to the policymakers in devising the regulations that can add to the level of economic development at the regional but also at the national level. In other words, the findings presented by using more data at the city level over the longer period of time provides more accuracy and the stability of the results and hecne formulating policies based on such research findings can have more implications as compared to policies formulated based on studies with less coverage of cities in the region and that too with a shorter period of data.

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