

# ANALYSIS OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE IN REGENCIES/CITIES IN EAST NUSA TENGGARA PROVINCE

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## ABSTRACT

The aim of this research is to determine the significance of the influence of Economic Growth, Labor, Capital Expenditures and Employee Expenditures on the Financial Performance of Regency and City Governments in NTT. This research approach uses quantitative methods. The sample used in this research is data from districts and cities in East Nusa Tenggara Province, totaling 21 districts and 1 city. Data was collected using documentation techniques and analyzed using Eviews. Observations in this research used Panel Data from 2017-2021. The results of the research show that simultaneously Economic Growth, Labor, Capital Expenditures and Personnel Expenditures have a significant effect on Regional Financial Performance, while partially Economic Growth and Labor have a positive and insignificant effect on Regional Financial Performance, Personnel Expenditures and Capital Expenditures have a positive influence and significant to Regional Government Financial Performance. The R square value shows that the contribution of Economic Growth, Labor, Capital Expenditures and Employee Expenditures is 95.63%, while the rest is influenced by other variables which were not examined in this research.

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## 1. INTRODUCTION

East Nusa Tenggara (NTT) is one of the provinces that has a high regional financial dependency on the central government. From 2017 to 2021, the ratio of regional government financial independence to the central government was always at a very low level (Ministry of Finance, 2022). This is of course very concerning, because regional independence can be a reflection of the performance and ability of regional governments to finance and manage government administration and implementation of development in their respective regions within a budget. Therefore, the NTT Regional Government needs to increase its regional financial independence, especially through optimizing the growth of Regional Original Income (PAD). With an increase in PAD, it is very likely for local governments to get surplus results in their financial performance.

One of the factors that contribute to PAD is economic growth (Desmawati, 2015). This is because economic growth reflects economic activity covering an area. So that if economic growth increases, PAD can also increase. The results of research by Amri, (2020), and Wulandari et al., (2022), found that economic growth plays an important factor in increasing PAD. However, different findings were obtained by Wiyono et al., (2017), which showed that economic growth did not have a significant contribution in forming regional income. According to him this can happen because economic growth itself continues to decline. Therefore, economic growth must be maintained, so that regional income continues to increase optimally.

Another factor that plays a role in forming PAD is labor. Supriadi et al., (2015) explained that the more workers a region has, the potential sources of tax revenue will also increase. Therefore, it is important for local governments to increase the quality and quantity of their workforce. Muchtholifah's (2010) research results show that the workforce and PAD have a positive relationship. Tianto, (2022) in his research also revealed the same thing, that the number of workers will have a positive impact on PAD. Both studies argue that the more labor force available in a region, the greater the value of PAD obtained which of course will influence financial performance, especially income in that region. On the contrary, the smaller the workforce, the smaller the PAD value obtained. However, research obtained by Laabani, (2015), shows that labor does not have a significant influence on regional income. According to him, this happens because the increase in the number of workers causes the utility value to decrease, therefore it does not play a role in forming income.

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Another factor that plays a role in forming PAD is capital expenditure. Capital expenditure carried out by regional governments can be seen from how the actual budget is used. Good realization will make regional infrastructure also better. This can be seen from one of the functions of capital expenditure is for infrastructure development in the area so that capital expenditure is considered important in regional economic activity (Sedyaningsih, 2015). Good infrastructure will also be able to improve services to the local community (Darwanis & Saputra, 2014). This is in line with Wulandari et al., (2022), who tested the financial performance of local governments in South Sumatra Province using data from 17 districts/cities so that the panel/sample data totaled 85 panels/samples with the 2016-2020 Time Series Data. that capital expenditure has an effect on regional financial performance. While the results of Rohmah's research, (2012) Capital Expenditures have no significant effect on regional financial performance.

The next factor that plays a role in forming PAD is employee spending. This expenditure in the form of personnel expenditure is a form of realization from the APBD of each region. However, in practice, actual employee expenditure may be absorbed lower or even higher than the budgeted amount. This will affect the financial performance of local governments. In other words, the good or bad performance of regional finances can be influenced by the magnitude of the realization of personnel spending at the Regency/City regional government. The results of research conducted by Wulandari et al. (2022) show that employee spending has a significant effect on regional financial performance. This is in line with research conducted by Putri, (2014) that employee spending has a significant effect on financial performance capability. Meanwhile, the results of research conducted by Khrisnadewi & Praptiestrini, (2022), that employee spending has no significant effect on regional financial performance.

**Table 1** Reserach Gap

Research	Result	Research gap
Desmawati, 2015; Wulandari, et al., 2022; Amri, 2020	There is significant effect between economics growth and Regional Original Income	Different result between economics growth and economics income
Wiyono, et al., 2017	There is not significant effect between economics growth and Regional Original Income	
Muchtholifah's (2010); Tianto, (2022)	There is significant effect between labor and Regional Original Income	Different result between economics growth and economics income
Laabani, (2015)	There is not significant effect between labor and Regional Original Income	
Darwanis & Saputra, (2014); Wulandari et al., (2022)	There is significant effect between capital expenditure and Regional Original Income	Different result between economics growth and economics income
Rohmah, (2012)	There is not significant effect between capital expenditure and Regional Original Income	
Wulandari, et al (2022); Putri, (2014)	There is significant effect between employee spending and Regional Original Income	Different result between economics growth and economics income
Khrisnadewi & Praptiestrini, (2022),	There is not significant effect between employee spending and Regional Original Income	

The differences in research results between labor, capital expenditure and employee expenditure on regional income (PAD) then became the research gap that underlies this study. It is hoped that through this research, we can find out the causes of differences in empirical findings, as well as which factors have the greatest contribution in forming local revenue (PAD) for districts and cities in East Nusa Tenggara Province

#### Hyphotesis

- H1: Economic growth has a positive and significant influence on local revenue
- H2: Workforce has a positive and significant influence on regional original income
- H3: Capital expenditure has a positive and significant effect on local revenue
- H4: Personnel spending has a positive and significant effect on local revenue

## 2. METHOD

This research uses quantitative methods. The sample in this study were all 22 regencies and cities in East Nusa Tenggara Province, so that it can be said that the sampling technique used was the saturated method. The data is taken from the Financial Report of the East Nusa Tenggara Regional Government at the BPK representative of NTT and the PDRB Report Data and the Summary Report on Labor Data at the BPS Province of NTT. The data type is panel, because it combines cross section and time series characteristics. The data was then analyzed using eviews to see the panel regression results. The initial stage of panel data analysis is to determine the regression estimate, to choose the type of model used, namely the common effect model, fixed effect model, and random effect model. These three models were selected by looking at the results of the Chow test, Hausman test and Lagrange multiplier test. The Chow test results will compare the common effect model with the fixed effect model. Meanwhile, the Hausman test will compare the fixed effect model with the random effect model. And the Lagrange Multiplier test will compare the common effect with the random effect. The results of each test will then provide the best regression model that can be used in this research.

## 3. RESULT AND DISCUSSION

**Table 2** Chow & Hausman Test

Test	Effect Test	Statistic	d.f	Prob	Result
Chow	Cross-section F	8.246235	(21,84)	0.0000	Using fixed effect model
	Cross-section Chi-square	123.0811663		0.0000	
Hausman	Cross-section F	4		0.0000	
	Cross-section Chi-square	20.124371	21	0.0000	

Source : Output E-views 9

Based on the Chow test shown in table 1, the significance value of the Cross-Section Chi-Square and Cross-section F is 0.0000 (less than 0.05), so that statistically  $H_0$  is rejected and  $H_a$  is accepted, so the estimation model is appropriate used in the panel data regression of the Chow test is the Fixed Effect Model. While the results of the Hausman test, obtained a significance value from Cross-Section Random of 0.0005 (smaller than 0.05) so that statistically  $H_a$  is accepted and  $H_0$  is rejected, then the appropriate estimation model used in the panel data regression of the Hausman test is the Fixed Effect Model. Because the Cow and Hausman test results show that the fixed effect is the most suitable model, the lagrange multiplier test is no longer necessary.

**Table 3** Fixed Effect Model of Panelled regression

Variable	Prediction	Coefficient	t-Statistic	Sig.
Economics growth	Positif	0.070682	1.430385	0.1563
Workforce	Positif	0.019122	0.281802	0.7788
Capital expediture	Positif	0.106912	4.466613	0.0000
Personnel spending	Positif	0.156144	2.445901	0.0165
R-Squared	0.966395	Mean dependen var		11976.42
Adjust R-Squared	0.956394	S.D dependen var		102.7427
S.E of regression	21.45476	sum squared resid		38665.75
F-Statistic	96.62648	Durbin-Watson stat		1.956746
Prob (F-Statistic)	0.000000			

Source : Output E-views 9.

**Table 4** Relationship of Independent Variabel To Variabel Dependent

Variable	Result	Conclusion
Economics growth (X1)	Not significant	H1 rejected
Workforce (X2)	Not significant	H2 rejected
Capital expenditure (X3)	Positive & significant	H3 Accepted
Personnel spending (X4)	Positive & significant	H4 Accepted

### The Effect of Economic Growth on Revenue Performance.

Economic growth is generally defined as an increase in the ability of a region's economy to produce goods and services. Economic growth can be regarded as an indicator, which shows the extent to which a country's economic activity will generate additional income for the community in 1 (one) period. Economic growth also reflects economic activities which can have positive and negative values. If in one

period the economy experiences positive growth then economic activity in that region experiences an increase, and vice versa, if in one period the economy experiences negative growth then economic activity also experiences a decline. This is possible because the rate of economic growth in a region is measured through the amount of total output from all economic activities. Economic growth will have an effect on increasing local original income. The better economic growth or the increased added value produced by each sector in the economy, the ability or potential of society to pay taxes and levies will increase. So one of the segments affected by this is performance finance in the income sector in the region.

The results of panel data regression analysis testing of the best Fixed Effects Model show the result that economic growth has no significant effect on financial performance. This is proven by the t-statistic value of 1.430385, and mark  $t_{count}$  more small from  $t_{table}$  ( $1.430 < 2.110$ ) then If seen from mark probability that is as big 0.1563 more big of 0.05 ( $0.1563 > 0.05$ ) which means that economic growth has an insignificant effect on revenue performance. This is possible due to the dynamics that are occurring, namely Covid, especially in 2019-2020 there are several Regencies and Cities whose economic growth is declining so that this can affect financial performance, especially in the regional income sector. The districts and cities in NTT that experienced an economic decline are: Kupang City, Alor District, Ende District, Lembata District, Manggarai District, Sabu District. Sikka Regency, West Sumba Regency, and TTU Regency.

The findings of this research are not in line with the results of previous research from Desmawati, (2015) which concluded that economic growth has a positive and significant effect on regional income in districts and cities in Jambi Province. Apart from that, research conducted by Amri, (2020) and Nasution & Panggabean, (2017) concluded that economic growth has a positive and significant effect on financial performance.

#### **The Influence of Labor on Revenue Performance**

The workforce is the population of working age. According to Law No. 13 of 2003 Chapter I Article 1 paragraph 2 it is stated that the workforce is every person who is able to do work to produce goods and services both to meet their own needs and for the community. One of the elements contributing to PAD is tax (Supriadi et al., 2015). The more workers available, the more investors will be attracted to invest capital, so that more companies or agencies will be formed. This can increase local revenue from the tax sector which will of course affect financial performance in the region. The test results show that labor has an insignificant influence on Revenue Performance. This is proven by the t-statistic value of 1.430, and mark  $t_{count}$  more small from  $t_{table}$  ( $0.2818 < 2.110$ ) is seen from mark probability that is as big 0.7788 which means more big from 0.05 ( $0.7788 > 0.05$ ) so Labor has a positive and insignificant effect on income performance. This means that even though more workers are working, this does not really support increased performance in the income sector. This is possible because there are still many workers who do not pay regional taxes or levies. So the contribution from taxes and levies is still very minimal. This can affect financial performance in the income sector.

The number of workers in districts/cities in NTT was the highest in 2021 at 255,159 people in TTS District. The number of workers in TTS in 2017 was 194,548 people and in 2021 it will be 255,159 people, so during this period there was an increase in the number of workers by 60,611 people in TTS Regency. Meanwhile, in Kupang City, the number of workers for 5 consecutive years from 2017 to 2021 experienced an increase in the workforce. The highest workforce in 2021 is 200,623 people. Then the lowest workforce was experienced by Central Sumba Regency in 2017, namely 23,552. This is because Central Sumba Regency has the lowest population of all regencies and cities in East Nusa Tenggara Province. The findings of this research are not in line with the results of research from Reza Tianto (2019) who concluded that partially, labor has a positive and significant effect on the Original Income of Provinces in Indonesia. He concluded that the more labor available, the higher the PAD. Vice versa, if there are fewer workers working, this will have an impact on reducing PAD. Apart from that, research conducted by Muchtholifah, (2010), found that labor has a positive effect on the output produced so that it increases in goods and services which of course will increase local income in the region.

#### **The Effect of Capital Expenditures on Revenue Performance**

Capital expenditures are regional government expenditures whose benefits exceed one budget and will add regional assets or wealth and will then add routine expenditures such as maintenance costs to the general administration expenditure group. (Mardiasmo, 2009). Capital expenditure carried out by regional governments can be seen from how the actual budget is used. Good realization will make regional infrastructure also better.

The results of panel data regression analysis testing from the best Fixed effect model show the result that capital expenditure has an influence on Financial Performance. This is proven by statistical

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values of 4.466613, and mark  $t_{count}$  more big from  $t_{table}$  ( $4.4666 > 2,110$ ) later If seen from probability value 0.0000 more small of 0.05 ( $0.0000 < 0.05$ ) then can It is concluded that capital expenditure has a positive and significant effect on revenue performance . This means that if capital expenditure is used up, it will increase revenue performance in districts and cities in East Nusa Tenggara. Kupang City has the highest capital expenditure in districts/cities in NTT with an average of IDR 241,885,252,776,- then the second highest capital expenditure, followed by Manggarai, amounting to IDR 220,882,867,061,-. Meanwhile, the lowest capital expenditure was experienced by Central Sumba, which was only IDR 123,816,574,791,- followed by Malacca Regency, namely IDR 137,874,848,117,-.

From these results it can be concluded that increasing capital expenditure means that the regional government has made efforts to increase infrastructure development so that it can be used by the community so that it can increase people's productivity in carrying out their work, with this the community can pay all kinds of regional taxes and levies which will in turn increase income. regional original income, this increase in regional original income will also improve the performance of regional governments in meeting community demands

The results of this research are in line with previous research conducted by Trisdayanti, (2021) , which concluded that capital expenditure has an influence in improving financial performance. especially income in districts/cities in North Sumatra province. In line with research conducted by Wulandari et al., (2022) that capital expenditure partially influences financial performance in sector income in districts and cities in South Sumatra Province. Then research conducted by Yani & Khoirudin, (2020) shows that capital expenditure has a positive effect on revenue performance. He concluded that infrastructure development had a real influence on increasing local taxes. The higher level of capital investment is expected to be able to improve the quality of public services and in turn be able to increase PAD in the region itself

#### **The Effect of Employee Expenditures on Revenue Performance**

According to the Regulation of the Minister of Finance No. 101/PMK.02/2011 concerning Budget Classification, capital expenditure is compensation in the form of money or goods given to civil servants, state officials, and retirees as well as honorary employees who will be appointed as employees within the scope of government either serving in or abroad as compensation for work that has been carried out in order to support the duties and functions of government organizational units. The results of panel data regression analysis testing from the best Fixed effect model show the result that employee spending has an influence on Revenue Performance. It is boutique with value  $t_{count}$  more big from  $t_{table}$  ( $2.445 > 2.110$ ) then If seen from mark probability as big 0.0165 more small of 0.05 ( $0.0165 < 0.05$ ) , then a can concluded that employee spending has a positive and significant effect on revenue performance .

The highest expenditure for personnel in the districts/cities in NTT was experienced by the City of Kupang, amounting to IDR 569,647,595,267. Then the 2nd highest was followed by TTS Regency with IDR 517,238,266,067,-. Meanwhile, the lowest average personnel expenditure was experienced by Central Sumba Regency, which was only Rp. 140,684,397,554, - followed by Sabu Raijua Regency, which was only Rp. 194,834,892,154, The regression results show that the regression coefficient of personnel expenditure is positive and significant, this means that personnel expenditure on the district/city government in the province of South Sumatra has been implemented effectively which has an impact on creating good human resource management, namely increasing performance productivity and professionalism of regional apparatus so as to support the system good governance. This is very necessary for improving the quality of public services which have an impact on increasing local government revenues from the public service sector.

Positive and significant influence of employee spending variables on performance finance in the income sector is in line with previous research conducted by Wulandari et al., (2022) which concluded that personnel spending has an influence on improving financial performance in districts/cities in the province of South Sumatra. This is in line with research conducted by Putri, (2014) that personnel spending has a positive and significant effect on regional financial capacity.

#### **4. CONCLUSION**

Economic Growth has a positive but not significant effect on Revenue Performance. Labor has a positive and insignificant effect on revenue performance. Capital Expenditures have a positive and significant effect on Revenue Performance. Employee Expenditures have a positive and significant effect on Revenue Performance. Suggestions that can be given to district and city governments in East Nusa Tenggara are to be able to optimize sources of local revenue from various sectors that are still lacking in contribution so that they can finance their own regional expenditures thereby reducing transfers from the

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center as a form of independence in financing their expenditures. In terms of increasing local own-source revenue, regional governments must be more active in exploring more potential sources of income for the region, both in intensification and extensification. The ability to fulfill regional expenditures proves that the regional government has carried out efficiencies in the financial performance of the Regency and City regional governments themselves. For the Regency and City governments in NTT to be able to increase regional economic growth. In order to achieve sustainable economic growth in the region, policies are needed that can support this. Regional governments must make efforts so that economic growth can occur evenly. Such as increasing capital investment and making efficient use of existing resources. Quality economic growth will always be a source of increasing PAD revenues, therefore it is necessary to continue efforts to accelerate quality economic growth that is beneficial for increasing PAD.

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