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The Influence of Local Own-Source Revenue towards Regional Financial Independence

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***Abstract*—This study aims at determining the influence of local own-source revenue towards regional financial independence. This study based on regional government regencies and municipalities of Indonesia. The research employed descriptive verification and documentation method as data collection technique. This study used secondary data that was obtained from the realization reports of regional government regencies and municipalities of Indonesia from the Ministry of Finance of the Republic of Indonesia in 2013-2016. The population of this study was 495 regencies and municipalities in Indonesia. The sampling technique used was cluster and stratified random sampling. It obtained a sample of 233 regional government regencies and municipalities in Indonesia. This study employed multiple regression Hypothesis testing method. Based on the t-test result data, it can be concluded that there was an influence of the local own source revenue to the level of regional financial independence, and the status of regional government was influenced on the level of regional financial independence.**

Keywords—local own source revenue; regional financial independence

I. INTRODUCTION

The regional government regulates and manages government affairs according to the principle of regional autonomy and co-administration tasks. Through regional autonomy and fiscal decentralization, local governments have the authority to explore income and make the role of financial allocation independently in establishing development priorities. This authority is given so that each region can independently manage its finances.

The enactment of the law provides opportunities for regional governments to explore the potential of each region towards regional independence [1,2]. To achieve regional financial independence, local govenment revenue that is received by the region must be above the minimum local govenment revenue, which is 25% of total regional income [3]. Conceptually, the relationship pattern between the local government and the central government must be carried out in accordance to the regional financial capability in financing the implementation of government and development. The criteria and patterns of regional financial independence said to be high if the independence ratio is above 75%, medium if the ratio is between 50% to 75%, and low if the ratio is between 25% to 50%. The regional independence ratio is said to be very low if the value of the ratio is below 25%, so that the status of the region can be said not yet independent to implement their regional autonomy.

In Regencies and Municipalities in Indonesia, regional independence is measured by regional government revenue compared to total transfer revenues which has a very low percentage. In Indonesia the percentage of local govenment revenue to total transfer income is still below 25% which indicates that this percentage is very low with an instructive relationship pattern. Even though in 2014 there was an increase, but the percentage did not reach 25%, which means that the Regencies and Municipalities in Indonesia were not be able to carry out their regional autonomy independently. This independence is in the low category and even very low.

This independence ratio describes the level of regional dependence on external funding sources. If the independence ratio is in high level, it means that the local government dependence to external help (especially the central and provincial government) is lower and vice versa. Independence ratio also describes people participation on regional development. It means that if the independence ratio is high, the public participation in paying tax and local retribution as the main component of local govenment revenue is high too [4]. So if the local governmnet has a low independence, they are not be able to manage their regional finance independenly because the role of central government is more dominant than the independence of regional government.

In this study the regional finance independence is divided based on the status of the government, namely municipalities and regencies. This is because the chacacteristic of regencies and municipalities government is different. The territory of Republic Indonesia is divided into provinces, regencies and municipalities region [1].

Research about the influence of regional government revenue on regional independence has been done before. Among them it was found that there were positive and significant impact of local govenment revenue on regional independence [5]. Another research also found the result that local govenment revenue has a positive and significant influence on regional independence [6]. The result of simultan test of regional income variable affected the level of regional financial independence of the municipalities of Bandung for the period of 2009-2013 and the result of partial test and local

tax has also a significant influence on regional financial independence [7]. The proportion of the contribution of income, the Routine Capability Index and the ratio of regional financial capamunicipalities in East java is very low, which implies that the level of independence in East Java is very low [8]. Other research shows that large municipalities can manage their income and expenses better than small municipalities [9]. In addition, regional autonomy in Poland only affects on increasing the income of municipalities government [10]. From several previous research there were different results so that it still needs to be researched. This research observed regencies and municipalities in Indonesia in the period of 2013 to 2016 as a subject that was supported by previous research in Poland. That research was carried out in one country, which is a developing country and revealed that regional authonomy research had only affect on increasing income in municipalities government. Similar to Poland, Indonesia as a developing country of course needs to examine the financial independence of the regencies and municipalities because Indonesia has different character based on each regency and municipality. In addition, it will also different in regard with the ability of each local government to get their regional revenue. So the researcher are interested in doing the same research by taking the regencies and municipalities as an object with modification on variable, object, sampling technique, research method, observation period and government status as dummy variables.

The purpose of this study was to determine the effect of regional revenue on regional financial independence. The areas that became the object the research are divided by the status of each government that are municipalities and regencies. In this study the regional revenue will be described according to the indicators that affect its local revenue: local taxes, regional distribution, result of regional companies and other legal local govenment revenue.

II. METHOD

This study used descriptive and verification research methods with a quantitative approach. The purpose of the descriptive method in this study is to explain and determine the influence of regional revenue on the regional financial independence based on the status of each local government in Regencies and Municipalities in Indonesia. The population selected in the study are municipalities and regencies in Indonesia in 2013-2016. The population in this study is 495 municipalities and regencies. The sample in this study was selected using cluster sampling and stratified random sampling techniques. The sample obtained was 233 samples. Data collection was obtained from www.djpk.kemenkeu.go.id. Data analysis used in this study was descriptive analysis and parametric multiple linear regression test.

III. RESULT

The results of calculation using the SPSS 23 application is presented in table 1.

Model		Sum of Squares	df	Mean Square	F	Significance
1	Regression	28,015	2	14,008	2402,158	,000[b]
	Residual	5,417	929	,006		
	Total	33,432	931			
a. Dependent Variable: Y						
b. Predictors: (constant) d, X1...						

Based on the result of these calculation, the form of multiple linier regression equations is as follow:

$$\mathbf{-0{,}064 + 6{,}004X_1 + 0{,}101d} = Y$$

The multiple linear regression coefficients of independent variables show a positive direction, meaning that if the local govenment revenue variable inreases, regional independence will also increase. The regression coeeficient for the dummy variable is the status of the regional government obtaining a result of 0,101 which means that the status of the regional government with type 1, which is the municipalities, is better than the status of the local government with type 0, namely regencies. It can also be interpreted that the status of the municipal government is 10,1% better than the status of the regency government.

The result of the t test based on SPSS 23 processing is presented in following table:

TABLE I. COEFFICIENTS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Significance
		B	*Std. Error*	*Beta*		
1	(Constant)	-,064	,008		-8,156	,000
	X1	6,004E-010	,000	,842	62,149	,000
	D	,101	,006	,217	16,028	,000
\Dependent Variable: Y						

Based on the result of these calculation, the form of multiple linier regression equations is as follow:

$$\mathbf{-0{,}064 + 6{,}004X_1 + 0{,}101d} = Y$$

The multiple linear regression coefficients of independent variables shows a positive direction, meaning that if the local govenment revenue variable inreases, regional independence will also increase. The regression coeeficient for the dummy variable is the status of the regional government obtaining a result of 0,101 which means that the status of the regional government with type 1 , which is the municipalities, is better than the status of the local government with type 0, namely regencies. It can also be interpreted that the status of the municipal government is 10,1% better than the status of the regency government.

The result of the t test based on SPSS 23 processing is presented in following table 2:

TABLE II. PARTIAL HYPOTHESIS TESTING (UJI T)

Variable	t_{count}	Df	t_{table}	Sig	Description	Conclusion
X1	62,149	928	1,963	0	H_o rejected	Significant

Table 2 shows that the variable X_1 has a value of t_{count} greater than the value of t_{table}. Because t_{count} (62,149) > t_{table} (1,963), H_0 is rejected. It can be concluded that there is an influence of Regional income on Regional Financial Independence. The next hypothesis testing is about variable status of government processed by SPSS and obtains result of t test as presented in table 3.

TABLE III. PARTIAL HYPOTHESIS TESTING (UJI T)

Variabel	t_{hitung}	Df	t_{tabel}	Sig	Description	Conclusion
D	16,028	928	1,963	0	H_o rejected	Significant

From the table it can be seeen that the variable D has a value of t_{count} which is smaller than t_{table}. Because t_{count} (16,028) < t_{table} (1,963), H_0 is rejected. So it can be concluded that the government status has an influence on the level of regional financial independence.

IV. DISCUSSION

The study was conducted on 233 samples from 184 regencies and 49 municipalities in Indonesia, which was divided into 3 regions, namely the Western Region, Central Region and Eastern Region. The average regional revenue in the regencies and municipalities in Indonesia shows an increase every year from 2013 to 2016. In addition, the independence ratio also increased from 2013 to 2016 although there were still several regencies and municipalities that still had low levels of independence as shown in table 4 and table 5.

TABLE IV. AVERAGE REGIONAL REVENUE IN REGENCIES AND MUNICIPALITIES IN INDONESIA (IN MILLION RUPIAH)

	2013		2014		2015		2016	
	Regency	*municipalities*	*Regency*	*municipalities*	*Regency*	*municipalities*	*Regency*	*municipalities*
Max	818,126	658,974	1,027,502	780,847	1,215,400	1,025,764	2.292.175	1.686.660
Min	9,061	9,598	15,500	16,562	15,813	15,436	6.806	19.691
Ave	95,763	188,452	131,455	243,583	150,983	280,507	155,740	323,801

Source: source processed

TABLE V. AVERAGE REGIONAL FINANCIAL INDEPENDENCE IN REGENCIES AND MUNICIPALITIES IN INDONESIA

	2013		2014		2015		2016	
	Regencies	Munipacilties	Regencies	Munipacilities	Regencies	Munipacilities	Regencies	Munipacilities
Max	61%	100%	62%	101%	91%	120%	112%	127%
Min	2%	3%	3%	5%	3%	5%	4%	1%
Ave	10%	23%	12%	30%	14%	34%	12%	31%

Source: source processed

It can be seen from the table that the highest average of independence is in the status of regional government, the status of the regency has a lower average independence compared to the status of the municipalities. Regencies and municipalities that have the highest value included in the high criteria with the delegating relationship pattern whic means that the intervention of the central government does not exist because the region has been truly capable and independent in carrying out the regional autonomy affairs. On the other hand, the lowest criteria is classified as is very low value has the instructive relationship pattern which means that the role of the central government is more dominant than the independence of regional governments. (Areas that are unable to implement regional autonomy) [3].

Regions that have a low level of independence are caused by the lack of regional government ability to increase regional income from the local tax sector. The regions which obtain low local govenment revenue are due to lower local tax revenues compared to other legal local govenment revenue and regional retribution that received by the local government. In addition, balance funds are given to regional governments from the central government such as revenue sharing funds, general allocation funds, and special allocation funds. Meanwhile, regional regions that get a low percentage get special allocation funds greater than regions that have a high level of independence. The same result which implies that the level of independence in East Java was very low [11] and to the independence of the province of West Sulawesi is still very low [12].

The multiple linear regression coefficients of independent variables show a positive direction, meaning that if the local govenment revenue variable inreases, regional independence will also increase. The result of the t test concluded that there is an influence of Regional income on Regional Financial Independence. Next hypothesis testing regarding the government status variable can be concluded that there is an influence of the government status on level of regional financial independence.

The result of other study shows that regional revenue has a positive and significant influence on regional financial independence[6]. The same result was carried out using municipalities and regencies in Java-Bali as samples. It can be concluded that regional revenue has a positive and significant impact on regional independence [5] and level of independence in local government, provincial and district / city is still dependent on the balance funds from the central government even though there has been decreasing dependence for the year 2009 until 2013. Dependence of the balancing funds tend to wane with increasing local revenue [13]. The central government dependency at Magu district council is above 80%, to the extent that, it cannot finance its recurrent expenditure [14].

V. CONCLUSION

Based on research that has been carried out on regencies and municipalities' regional governments in Indonesia in 2013-2016, it can be concluded that over the 4 years from 2013 to 2016, regional revenue increased every year and average result of local government revenue in the municipalities was greater than the local regency's government revenue. The level of regional financial independence in regencies and municipalities in Indonesia is very low because it is still below 25%. The result shows that average ratio of regional financial independence in municipalities government gets higher result than regencies government. Based on the result of testing the local government revenue, there has been a positive effect on regional financial independence based on the status of regencies and municipalities government.

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