Economic Growth Rate, locally-Generated Revenue, general Purpose Transfers, Regional Investment, Capital Expenditure, And All Have An Impact On The Degree Of Regional Fiscal Independence (Case Study In Regencies/Cities In Central Java Province 2017–2021 Period)

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Abstract

This study aims to identify whether there is an influence on economic growth, LGR, GPT, regional investment, and capital expenditures on the degree of regional financial independence in the Regency/City of Central Java Province in the 2017-2021 period. This research study is descriptive quantitative. The data collection technique is a document and literature review with a saturated sampling technique. This research study's secondary data includes the constant price GRDP Report and the Financial Statistics of the Regency/City Government of Central Java province for five years (2017-2021) sourced from Central Java BPS. The analysis tool is SPSS 22.0. The results of this study reveal that economic growth and regional investment do not affect regional fiscal independence. Meanwhile, LGR and capital expenditure have positive and significant coefficients for regional budgetary autonomy. And GPT has a negative and significant coefficient for regional fiscal independence.

Keyword : Economic growth, LGR, GPT, Regional investment, capital expenditure and regional fiscal independence

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A.INTRODUCTION

Regional autonomy is freedom, sovereignty, and local commitment in Indonesia which plans to manage its own unique local sources of income or assets from the central government which are distributed for the benefit and development of the local area in accordance with relevant regulations and guidelines. Self-supporting capability is one of the important requirements for evaluating precisely whether a district can be said to be independent or still dependent on payment of assets from the central government (Nurhasanah, 2017). The rules of regional autonomy have been implemented in Indonesia beginning on 1 January 2001 concerning the implementation of the effectiveness of regional autonomy. The provision of regional autonomy policies from the central government can be a hope to assist the implementation of equitable development in underdeveloped areas with the aim of increasing the level of welfare of the people and utilizing the potential of the regions (Sari, 2015).

Utilization of autonomy requires the regions to look for ways to reduce dependence on funding from the central government and to use funds from regional original revenues in accordance with the priority needs desired by the community. Thus, the function of regional investment to develop the percentage of economic growth becomes very crucial for the region. A good level of fiscal autonomy is an aspect that must be further enhanced for regions that are not yet said to be financially independent. Fiscal autonomy can describe regional performance competencies in managing LGR sources. Even though in reality the funds used are not only limited to LGR, but also other regional transfer income such as funds originating from the central government. However, dependence on transfer funds must be overcome as best as possible in order to change the source of LGR as the main funding by a region (Putri, 2017).

The government's relatively low effort to explore these sources of income has led to a reduced level of regional initiative in seeking cultural uniqueness and regional potential, the contribution that each community has made to the region is not yet optimal, the legal system and regional revenue administration are still relatively weak, the regional apparatus does not yet have professionalism in carrying out their responsibilities, low bureaucratic quality which causes failure in carrying out the program, low sense of optimism to get satisfactory results. On the other hand, expenses incurred while running the program are also usually marked up and not in accordance with the initial budget. Even though from the start, budgeting for regional program costs was directed at saving as much as possible and if there were remaining budgets it could be allocated to run other programs that are useful for the quality of public services. The problem above is a negative signal where the implementation of regional autonomy has not reduced the percentage of regions in Indonesia to direct contributions from the center, so there is a need for an accurate strategy to increase LGR in all regions. The competence of good government officials greatly influences the increase in income earned by each region. The characteristics of people who have good competence are having knowledge, experience, leadership qualities, ethics and high skills (Indriasih, 2014).

A common phenomenon that occurs in the degree of regional fiscal independence is that there are still many regions that have a relatively small LGR contribution in the structuring of the APBD. In other words, General Purpose

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Transfers, namely the DAU and DBH, which are determined by the central government, still dominate the APBD composition. The higher the ratio of LGR compared to general transfer funding from the center, the district/city government already has a relatively high ratio of regional independence and can realize the expectations of the fiscal decentralization policy. The LGR element is the most vital aspect for determining the degree of fiscal independence for each region (Nurhasanah, 2017).

The successful implementation of regional autonomy will not be separated from the quality of competence in regional financial management. This is a concern that must be considered again for each region to realize the demands of autonomous regional policies. One of the reasons why these factors are very important in the implementation of regional autonomy is because the regional government will not succeed in procuring effective performance of fiscal independence without relatively large funding in realizing good administration and good infrastructure development and satisfactory finances. This is the basic benchmark for understanding the real level of regional capability in maximizing fiscal decentralization (Christia et al., 2019).

The Report on the Results of the 2020 Fiscal Independence Assessment compiled by the BPK RI reveals the conclusion that all regencies in Central Java Province have a ratio of fiscal independence that is classified as not yet independent. The reason is that the Fiscal Independence Index is <0.25. However, almost all cities in Central Java Province fall into the category towards independence, as evidenced by the average ratio of fiscal independence, which is in the range of 0.25 to 0.50. Except for the city of Pekalongan, which is still in the category of not yet independent. The reason for choosing Central Java Province is that there are still many districts that are still classified as not being fiscally independent. However, the development of regional independence for urban areas in Central Java is quite satisfactory. Therefore, optimization is needed in several fields so that the regional independence ratio can continue to increase and achieve financial independence without depending on funding from the state.

Research related to the degree of regional fiscal independence has been made by other researchers with different variables. One of them is research by Nauw, (2021) examining the Effects of Regional Original Income, Balancing Funds, and Capital Expenditures on Regional Government Financial Performance. This research was conducted in the districts/cities of West Papua Province which obtained the results of observations that LGR indicated a positive influence. Meanwhile, balancing funds and capital expenditures prove a negative influence on regional financial performance. Another research is Sulaiman, (2021) researching the Analysis of Factors Influencing the Level of Regional Financial Independence of Regency/City Governments in South Sumatra Province. Proving if regional fees have a positive coefficient. However, DAU, DBH, and Capital Expenditure have no influence on regional independence.

In accordance with the description of the problem, the researcher plans to carry out a research study on Economic Growth Rate, Locally-Generated Revenue, General Purpose Transfers, Regional Investment, Capital Expenditure, And All Have An Impact On The Degree Of Regional Fiscal Independence (Case Study In Regencies/Cities In Central Java Province 2017–2021 Period)

B. Literature review

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1. Regional Autonomy

Regional autonomy is the freedom, authority and commitment of the region to be able to control and regulate independently regarding its government by prioritizing the relevance of the wider community. The authority given covers various fields of government in order to encourage the regions to achieve success in procuring regional autonomy (Riri, 2018)

2. Regional Fiscal Independence (RFI)

Fiscal independence or it can be called fiscal autonomy, namely the competence of the government to make efficient use of capital independently without assistance from the center and still pay attention to generally accepted guidelines. A good degree of fiscal independence of a region indicates that the competency applied by the local government to increase the income of regional funds in the form of LGR has produced satisfactory results. The rapid development of LGR will have a very explicit effect on the ratio of fiscal independence and will be increasingly able to self-finance the necessary expenditures without interference from the central government (Puspitasari & Salisa, 2017).

$$RFI = \frac{\text{Realization of Locally-Generated Revenue}}{\text{Total Regional Revenue}} \times 100\,\%$$

3. Economic Growth (EG)

Economic growth is a procedure for changing regional economic conditions to more appropriate developments by improving GRDP in a certain period. An important target of the implementation of regional autonomy is by increasing the degree of fiscal independence. As a benchmark that needs to be considered in expressing economic perceptions, namely the Gross Domestic Product (GDP) in assessing the amount of commodities and services produced by a country. Meanwhile, each region has criteria that must be considered in advancing the level of economic growth, namely the quality of the total GRDP (Adyatma & Oktaviani, 2015).

$$EG = \frac{GDPt - GDPt\text{-}1}{GDPt\text{-}1} \times 100\,\%$$

4. Locally-Generated Revenue (LGR)

Regional original revenue, namely income from the capacity of the region itself and managed in accordance with the competence of government performance and prioritizing the principle of decentralization. Local own-source revenue has a target or objective, namely to give the government the right and authority to finance its own functional affairs in realizing an area that can be called independent. One indicator for assessing effective LGR is the performance of human resources so that community welfare can be realized. This is very important because LGR is a very vital and potential source of regional funds so that there can be an increase in regional financial performance and the creation of a relatively significant percentage of independence from before (Shafira, 2020).

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LGR = local tax + regional fees + results of separated regional wealth management + other legal original regional income

5. General Purpose Transfers (GPT)

General Purpose Transfers or commonly abbreviated as GPT are funds received by local governments allocated in the APBN to align rights and authorities through the implementation of decentralization rules. General Purpose Transfersare divided into two parts, namely GAF and RSF.

GPT = General Allocation Fund + Revenue Sharing Fund

6. Regional Investment (RI)

Regional investment or what can be called investment is an activity of placing a number of capital funds as one of the hopes to increase the value of assets in the future. In macroeconomic activities, investing has two important factors in realizing fiscal decentralization, namely the first effect on aggregate demand. The positive impact in the short term is that the opening of broad employment opportunities will encourage an increase in people's income. Second, its influence on capital formation. Whereas. The positive impact for the long term is that it will encourage the formation of relatively satisfactory domestic and foreign investment business plans so that it can change the direction of a positive economic growth coefficient (Mirsan et al., 2019).

RI = Investment Domestic Investment + Foreign Investment Capital

7. Capital Expenditures (CE)

Capital expenditures are costs that must be incurred in financing regional government affairs that are useful for contributing to the goals of implementing regional autonomy. Regional government policies must ensure accurate targets by taking into account the capacity of each expenditure, both in terms of regional potential background, regional work units, or government operational activities, which have targets to promote accountability, transparency, effectiveness and accuracy of the budget that has been set. . Regional policy programs in support of the goal of fiscal independence must provide transparent, clear and accurate information to have a telling impact on the community. The regional government will manage regional spending well with the aim of providing accommodation so that it can provide direct and indirect public peace (Defitri, 2020).

$$CE = \frac{\text{Total Capital Spending}}{\text{Regional Total Spending}} \times 100\ \%$$

C.RESEARCH METHOD

1. Type of Research

The research is quantitative in nature aiming to conclude the percentage of the magnitude of the impact between research factors (variables) presented in numerical or numeric, by collecting all information related to the supporting elements on the impact between interrelated variables and analyzing the information with analytical tools that are appropriate to the factors or variables study.

2. Population and Sample

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For this research, the population is all regencies and cities of Central Java province for the 2017-2021 period. While the sampling method is done with a saturated sample, meaning the method is applied by including the entire population including the research sample.

3. Data Collection Techniques

Secondary data is the data used in this research which was found on the official website of BPS Central Java. The collection technique uses literature and documentation, namely Regional Government Financial Statistics and the PDRB Constant Price Report for the 2017-2021 period. Based on the time of data collection, this research can be grouped into time series data, which are research data that will be studied with a predetermined time span so as to obtain some information that is included in the research sample (Setiawan et al., 2021)

4. Data Processing Techniques

To get precise and efficient calculations, this research was processed through the SPSS version 22.0 application.

D. RESULTS AND DISCUSSION

1. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Economic Growth	175	-10,28	6,98	3,5828	3,06389
Locally-Generated Revenue	175	179224409	2542288219	403459484,81	304884996,276
General Purpose Transfers	175	443650268	1484875007	1002486282,14	251493278,741
Regional Investment	175	2481,10	16426909,10	884240,5314	1919659,77260
Capital Expenditures	175	5,31	29,46	16,0132	5,04548
Regional Fiscal Independence	175	9,58	53,40	18,1134	6,77329
Valid N (listwise)	175				

Table 1. Descriptive analysis test results

Source :SPSS 22.0 output

2. Classical Assumption Test

a. Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		175
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	2,46661658
Most Extreme Differences	Absolute	,066
	Positive	,066
	Negative	-,043
Test Statistic		,066
Asymp. Sig. (2-tailed)		,058[c]

a. Test distribution is Normal.

b. Calculated from data.

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Source :SPSS 22.0 output

Based on the test above, a significant number was obtained of 0.058 > 0.05. It means that the data is not problematic or is said to be normal.

b. Multicollinearity Test

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Economic Growth	,772	1,296
	Locally-Generated Revenue	,630	1,586
	General Purpose Transfers	,794	1,259
	Regional Investment	,769	1,301
	Capital Expenditures	,712	1,405

a. Dependent Variable: Regional Fiscal Independence

Source :SPSS 22.0 output

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c. Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-5,717	1,047		-5,458	,000
Economic Growth	-,090	,069	-,113	-1,306	,193
Locally-Generated Revenue	4,377E-10	,000	,055	,573	,568
General Purpose Transfers	-2,918E-10	,000	-,030	-,354	,724
Regional Investment	-1,056E-8	,000	-,008	-,096	,924
Capital Expenditures	,065	,043	,135	1,497	,136

a. Dependent Variable: Abs_Res2

Source :SPSS 22.0 output

The test data above shows that if the results of the heteroscedasticity test through the Park test obtained all independent variables with a sig value. > than 0.05. Based on these results, the regression model does not have symptoms of heteroscedasticity.

d. Autocorrelation Test

Table 5. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,883[a]	,780	,773	1,99481	1,845

a. Predictors: (Constant), X1Economic Growth, X2_ Locally-Generated Revenue, X3_ General Purpose Transfers, X4_Regionalinvestment, X5_Capital Expenditures

b. Dependent Variable: Y_ Regional Fiscal Independence

Source :SPSS 22.0 output

The test results obtained a dw value of 1.845, a du value of 1.8117 and a 4-du value of 2.1883. So, it can be seen if the dw value is between du and 4-du. Thus, the regression model does not have autocorrelation symptoms.

3. Multiple Linear Regression Analysis

Table 6. Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	23,500	1,074		21,875	,000
Economic Growth	-,071	,070	-,032	-1,011	,313
Locally-Generated Revenue	2,130E-8	,000	,959	27,176	,000
General Purpose Transfers	-1,572E-8	,000	-,584	-18,573	,000
Regional Investment	-5,949E-8	,000	-,017	-,528	,598
Capital Expenditures	,130	,045	,097	2,926	,004

a. Dependent Variable: Regional Fiscal Independence

Source :SPSS 22.0 output

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4. Hypothesis Testing

a. Simultaneous Test

Table 7. Simultaneous Test Results F

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6924,019	5	1384,804	221,066	,000[b]
	Residual	1058,650	169	6,264		
	Total	7982,669	174			

a. Dependent Variable: Regional Fiscal Independence

b. Predictors: (Constant), Economic Growth, Locally-Generated Revenue, General Purpose Transfers, Regional Investment, Capital Expenditures

The LGR a table F for this research is 2.27 and the level value is 0.05. Based on that decision, it was identified that when all the independent variables were tested together, they would have an influence on the dependent variable. Thus, the regression model is feasible to use.

b. Partial T Test

Table 8. Partial T Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	23,500	1,074		21,875	,000
Economic Growth	-,071	,070	-,032	-1,011	,313
Locally-Generated Revenue	2,130E-8	,000	,959	27,176	,000
General Purpose Transfers	-1,572E-8	,000	-,584	-18,573	,000
Regional Investment	-5,949E-8	,000	-,017	-,528	,598
Capital Expenditures	,130	,045	,097	2,926	,004

a. Dependent Variable: Regional Fiscal Independence

Source: SPSS 22.0 output

It is known that the T table is 1.97410 and the level value is 0.05. On that basis, it is found that if economic growth and regional investment have no effect, LGR and capital expenditure have an influence and the coefficient direction is positive, while DTU has influence but the coefficient direction is negative on the dependent variable.

c. Determination Coefficient

Table 9. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,883[a]	,780	,773	1,99481

Source: SPSS 22.0 output

If you look at the Adjusted R Square, it is 0.773 or 77.3%. Which means if the independent variable can describe the dependent variable by 77.3%. While 22.7% is described by other independent variables.

E. CONCLUSIONS AND RECOMMENDATIONS

1. Conclusion

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Based on the test results in this research study, it is concluded that:
1) Economic growth has no influence on the degree of regional fiscal independence. Regional economic development has not been evenly distributed, has not improved.
2) LGR has a positive coefficient towards the degree of regional fiscal independence. The greater the percentage generated by LGR, the greater the level of regional fiscal independence. Thus, the area is categorized as independent and not entangled in central government funding.
3) General Purpose Transfershave a negative effect on the degree of regional fiscal independence. The high number of General Purpose Transferscan indicate that the region is very dependent on central government funding, thereby hindering the achievement of regional fiscal independence.
4) Regional investment has no influence on the degree of regional fiscal independence. The main factor is the low realized value of regional investment consisting of domestic and foreign investment which can be made a top priority for increasing the LGR component in the form of regional taxes.
5) Capital expenditure has a positive efficient direction towards the degree of regional fiscal independence. Utilization of capital expenditures must be able to emphasize the purchase of assets that are concerned with administration and the general public interest. The high percentage of capital expenditure budgeted by the regional government will have an impact on the smooth running of community businesses so that it will increase regional independence.

2. Recommendations

1) For future researchers, it is hoped that they can add research variables, especially independent variables so that they can make a contribution that can be used as a guide for regional governments in efforts to increase regional fiscal independence.
2) For future researchers, it is hoped that the number of samples and research study areas can be further expanded, for example by extending the research study period or involving other provinces.
3) The regional government of Central Java province is expected to be able to optimize local revenue receipts in several regions that have relatively high central transfer funds.

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