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Factors Affecting Regional Financial Independence In Regency/City Governments In North Sumatera (2015-2019 Period)

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ABSTRACT

The purpose of this research is to examine the effect of economic growth, local revenue, capital expenditure, general allocation of funds and regional investment toward regional financial independence in regency/city at North Sumatra for the 2015-2019 period.

The sampling technique used in this study was purposive sampling method with a total sample size of 12 and a total of 60 observations. The data used in this study were secondary data. The research data was obtained from the website of the North Sumatra Central Bureau of Statistics and the Directorate General of Fiscal Balance.

The results show that partially the economic growth and local revenue have a positive effect on regional financial independence, general allocation funds have a negative effect on regional financial independence, capital expenditure and regional investment have no effect on regional financial independence. Meanwhile, simultaneously economic growth, local revenue, capital expenditure, general allocation of funds and regional investment have a positive and significant effect on regional financial independence.

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1. INTRODUCTION

Indonesia adheres to a regional autonomy system in the implementation of its government. Regional autonomy is the right, authority, and obligation of an autonomous region to regulate and manage its own government affairs and the interests of the local community in accordance with statutory regulations (Law Number 32 of 2004).

One of the characteristics of the implementation of regional autonomy is the implementation of fiscal decentralization, in which the preparation and implementation of the APBD in the implementation of regional economic development is the responsibility of each region. Fiscal decentralization causes the fiscal potential of local governments to vary widely from one region to another due to differences in geographical location, natural resource wealth, and the quality of human resources.

The main characteristics of a region that is able to carry out autonomy, namely (1) regional financial capacity, meaning that the region must have the authority and ability to explore financial sources, manage and use its own finances that are adequate enough to finance the administration

of its government, and (2) dependence on central assistance must be kept to a minimum, so that local revenue (PAD) can become the largest part of the financial source so that the role of local governments becomes greater.

Regional financial independence is indicated by the size of the Regional Original Revenue (PAD) compared to regional income originating from other sources such as central government assistance or from loans. PAD is obtained from regional wealth sources collected by local governments based on applicable laws. Local governments are required to be able to manage all their regional potential and explore sources of regional revenue in order to increase PAD. Local governments are also expected to be financially independent in financing regional expenditures.

PAD is revenue sourced from regional taxes, regional levies, the results of separated regional wealth management and other legitimate PAD income. Balancing funds are transfer income in the form of Profit Sharing Funds, General Allocation Funds and Special Allocation Funds. Meanwhile, other regional revenues come from emergency funds, tax revenue-sharing funds, adjustment funds and special autonomy as well as financial assistance from other provinces and local governments. The amount of PAD in the Regency/City of North Sumatra has a small percentage of total regional revenue in the APBD structure. If there is an increase in PAD, it is usually followed by an increase in balancing funds and other regional revenues with a larger percentage.

According to Salim A. Abbas (2005:201) "the goal to be achieved with risk management is to manage the company in order to prevent the company from failing, reduce expenses, increase profits, reduce production costs, and so on"

The benefits of risk management that can be contributed by risk management according to Darmawi (2008:11) are:

a. Risk management may be able to prevent the company from failure
b. Risk management can increase company profits
c. Risk management can contribute profits indirectly
d. Peace of mind for managers
e. Improving public image".

The focus of this risk management is the identification and treatment of risks with the aim of adding sustainable value to all company activities. Risk management must be continuously implemented and developed so that the company's strategy can be implemented. Risk management should also be integrated into the corporate culture with effective policies and programs led by senior managers, so that all departments, both managers and employees, are responsible for existing risk management.

2. RESEARCH METHOD

This research is a type of causal associative research. This study uses a quantitative approach to explain the effect of economic growth, PAD, capital expenditure, DAU and regional investment on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.

2.1 Place and time of research

This research was conducted in Regency/City Governments in North Sumatra for the 2015-2019 period through the website of the Central Statistics Agency of North Sumatra and the Directorate General of Fiscal Balance.

2.2 Population and Research Sample

The population used in this study is the APBD Realization Report of 33 Regencies/Cities (25 Regencies and 8 Cities) in North Sumatra in 2015-2019.

Sampling in this study using purposive sampling method, namely the selection of samples based on certain characteristics that are considered to have something to do with the characteristics of the population that have been known previously. Based on the aforementioned criteria, the number of samples obtained during the 2015-2019 period was 12 samples, namely; Regency. Nias, South Tapanuli Regency, Kab. Central Tapanuli, Kab. North Tapanuli, Kab. Deli Serdang, Kab. Langkat,

Kab. Pakpak Bharat, Kab. Serdang Bedagai, Kab. Labuhan Batu Utara, Kab. North Nias, Pematang Siantar City, Padangsidimpuan City.

2.3 Data Type

The type of data used in this research is secondary data. Secondary data is obtained or collected from previous studies or research or information published by various agencies or organizations. The secondary data used in this study were sourced from the Central Bureau of Statistics of North Sumatra (www.bps.go.id) and the Directorate General of Fiscal Balance (www.djpk.kemenkeu.go.id) with a total of 60 data observations (12 samples x5 years).).

2.4 Method of collecting data

Data collection in this study was carried out using documentation techniques, namely the researchers collected secondary data obtained from the site (www.djpk.depkeu.go.id) and the site (www.bps.sumut.go.id). In addition, the data collection method was also carried out by means of a literature study. Literature study is a method of collecting data that can be done by observing data from the literature and books that support research.

2.5 Data analysis technique

a. Descriptive Statistical Analysis

Descriptive statistical analysis consists of calculating the mean, median, standard deviation, maximum and minimum of each sample data.

b. Classical assumption test analysis

In analyzing the data, the researcher used the help of the software program SPSS (Statistical Product & Service Solution) 25.0 for windows. There are four classical assumption tests conducted in this study, namely normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

c. Multiple Linear Regression Analysis

Multiple linear regression analysis was used to test the effect of the independent variable on the dependent variable.

d. Research Hypothesis Test

Hypothesis testing is a procedure carried out with the aim of deciding whether to accept or reject the hypothesis regarding population parameters. Hypothesis testing in this study used the F test and t test and the determinant coefficient test (R2).

3. RESULTS AND DISCUSSIONS

3.1 Descriptive statistical analysis

The description of this variable provides an overview of the minimum value, maximum value, average value, and standard deviation of the data used in the study.

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	mean	Std. Deviation
Economic growth	60	4.12	5.97	5.0965	.39393
Locally-generated revenue	60	23.49	27.47	25.2267	.86281
Capital Expenditure	60	25.45	27.33	26.2305	.45053
General Allocation Fund	60	26.51	28.05	27.1546	.40902
Regional Investment	60	19.95	24.75	22.1707	1.04983
Regional Financial Independence	60	1.49	29.31	8.9970	5.21856
Valid N (listwise)	60				

3.2 Classic assumption test

The classical assumption test in this study was carried out using the SPSS version 25 statistical program.

a. Normality test

Table 2. Kolmogorov-Smirnov . Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters, b	mean	.0000000
Most Extreme Differences	Std.	2.10378388
	Deviation	.095
	Absolute	.095
	Positive	-.094
	negative	.095
Test Statistics		
asymp. Sig. (2-tailed)		.200c,d

Based on table 2 shows that the data is normally distributed. This can be seen from the Asymp.Sig (2-tailed) value of 0.200 or the probability above the significant value of 0.05 in other words the residual variable is normally distributed. After testing through graphical and statistical analysis, normal results are obtained so that the normality assumption is met and can be continued with the next classical assumption test on the data.

b. Multicollinearity Test

Multicollinearity test was conducted to test whether there is a correlation between independent variables with one another in the regression model. If the tolerance value is 0.10 and the VIF value is 10, it can be concluded that there is multicollinearity in this study.

Table 3. Multicollinearity Test

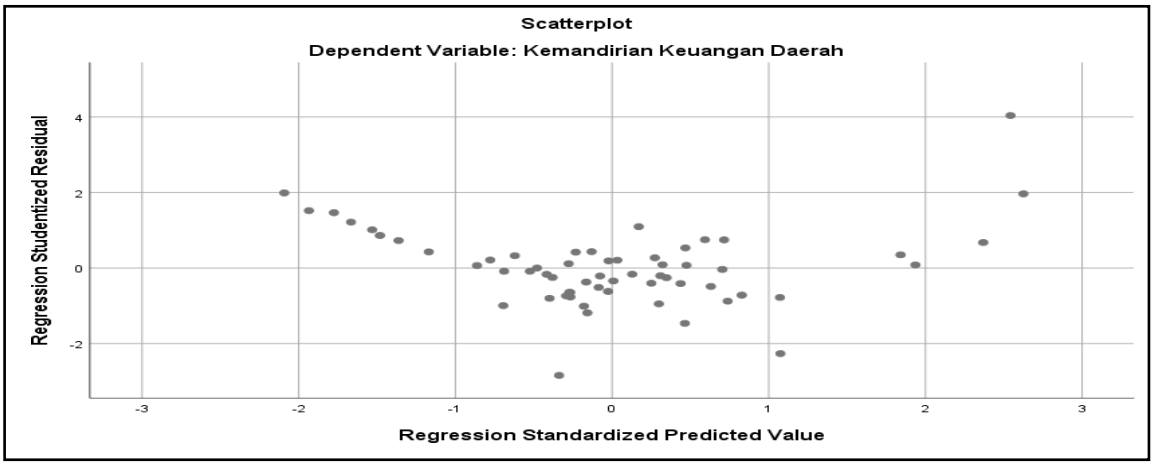
Coefficientsa			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Economic growth	.937	1.068
	Locally-generated revenue	.246	4.066
	Capital Expenditure	.318	3,141
	General Allocation Fund	.179	5.575
	Regional Investment	.759	1.317

a. Dependent Variable: Regional Financial Independence

In Table 3 it can be seen that the tolerance and VIF values of the economic growth variable are 0.937 and 1.068. Local revenue variables are 0.246 and 4.066. The capital expenditure variables are 0.318 and 3.141. The general allocation fund variables are 0.179 and 5.575. Regional investment variables are 0.759 and 1.317. Therefore, it can be concluded that in this model there is no multicollinearity problem between the independent variables because the tolerance value is above 0.1 and the VIF value is below 10.

c. Heteroscedasticity Test

Scatterplot Graph



In the figure, it can be seen that the distribution of points tends to be irregular, there are several plots that are scattered above and below the number 0 on the Y axis and do not form a clear pattern, so it can be concluded that there are no symptoms of heteroscedasticity in the regression model in this study.

d. Autocorrelation Test

Table 4. Durbin-Watson test results

Model Summaryb					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin - Watson
1	.916a	.838	.823	2.19306	1,958

a. Predictors: (Constant), Regional Investment, Economic Growth, Capital Expenditure, Regional Original Income, General Allocation Fund

b. Dependent Variable: Regional Financial Independence

The results of the autocorrelation test above show the Durbin-Watson (DW) statistical value of 1.958. This value is compared with the table value using a significance value of 0.05 (5%), the number of samples is 60 (n) and the number of independent variables is 5 (k=5). From the Durbin Watson table, the upper limit value (dU) is 1.77, the lower limit value (dL) is 1.408 and 4-du = 2.23. Therefore, the value of DW is greater than du and smaller than 4-du (1.77 < 1.958 < 2.23), so it can be concluded that there is no autocorrelation.

e. Multiple Linear Regression Analysis

Table 5. Results of Multiple Linear Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25.558	25,247		-1.012	.316
	Economic growth	1.509	.749	.114	2016	.049
	Locally-generated revenue	7.910	.667	1.308	11.858	.000
	Capital Expenditure	.777	1,124	.067	.691	.493
	General Allocation Fund	-7.254	1,647	-.569	-4.406	.000
	Regional Investment	.178	.312	.036	.570	.571

a. Dependent Variable: Regional Financial Independence

From table 5 in the Unstandardized Coefficients Beta column, a multiple linear regression equation can be arranged as follows:

Y = -25.558 + 1.509X1 + 7.910X2 + 0.777X3 – 7.254X4 + 0.178X5 + e.

f. Research Hypothesis Testing Analysis

- **F Test (Simultaneous Significance Test)**

The F test was conducted to determine the influence of all independent variables contained in the model simultaneously on the dependent variable. The basis for the analysis of decision making in this test is if the significance level is below 0.05, then Ho is rejected and Ha is accepted.

Table 6. F Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1347,059	5	269,412	56.017	.000b
	Residual	259,713	54	4.809		
	Total	1606,771	59			

a. Dependent Variable: Regional Financial Independence

b. Predictors: (Constant), Regional Investment, Economic Growth, Capital Expenditure, Regional Original Income, General Allocation Fund

Table 6 shows the calculated F result of 56.017 while the F table at the confidence level = 0.05 with (5;55) is 2.38 which can be proven by the F table in the attachment. So that F count > F table (56.017 > 2.27) and the level of significance (0.000 < 0.05) then Ho is rejected and Ha is accepted meaning that Economic Growth, Regional Original Income, Capital Expenditure, General Allocation Funds and Regional Investments have a simultaneous effect on Financial Independence Area.

- **t test (Partial Significance Test)**

The t-test was conducted to determine whether each independent variable partially has a real effect or not on the dependent variable. The t-test was carried out by comparing the t-count and t-table values and using a significance level of 5%. The results of the t test analysis are shown in the following table:

Table 7. t test results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25.558	25,247		-1.012	.316
	Economic growth	1.509	.749	.114	2016	.049
	Locally-generated revenue	7.910	.667	1.308	11.858	.000
	Capital Expenditure	.777	1,124	.067	.691	.493
	General Allocation Fund	-7.254	1,647	-.569	-4.406	.000
	Regional Investment	.178	.312	.036	.570	.571

a. Dependent Variables: Regional Financial Independence

- **R2 Test (Coefficient of Determination)**

This test was conducted to measure how far the model's ability to explain the variation of the dependent variable. If the value of R2 is greater or closer to one, the contribution of the independent

variable to the dependent variable is greater.

Table 8. Value of Coefficient of Determination

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin - Watson
1	.916a	.838	.823	2.19306	1,958

a. Predictors: (Constant), Regional Investment, Economic Growth, Capital Expenditure, Regional Original Income, General Allocation Fund

b. Dependent Variable: Regional Financial Independence

Based on the results of the R^2 test (coefficient of determination) in table 4.10, the magnitude of the R^2 value in the regression model is known in the Adjusted R Square section, which is 0.823. This shows that 82.3% of the variation in the dependent variable (regional financial independence) can be explained by independent variables (economic growth, local revenue, capital expenditures, general allocation funds and regional investment), while the remaining 17.7% is explained by variables or other factors not included in this study.

The results of the partial t test show that economic growth has a positive and significant effect on regional financial independence. This can be seen from the significance value of economic growth (0.049 < 0.05) and the value of t arithmetic > t table (2.016> 2.005).

The results showed that partially local revenue has a positive and significant effect on regional financial independence. The significance value of local revenue (0.000 < 0.05) and the value of t count > t table (11.858 > 2.005).

The results showed that partially capital expenditure had no effect on regional financial independence. The significance value of capital expenditure is (0.493> 0.05) and the value of t count < t table (0.691 <2.005).

The results showed that partially the general allocation fund had a negative and significant effect on regional financial independence. This is indicated by a significant number (0.000 < 0.05) and the value of t count > t table (-4.406 > 2.005).

The results of the partial t test showed a significant number (0.571 > 0.05) and the t count < t table (0.570 < 2.005). This means that regional investment has no effect on regional financial independence.

The results show that economic growth, PAD, capital expenditure, DAU and regional investment simultaneously have a positive and significant effect on regional financial independence in districts/cities in North Sumatra Province in 2015-2019. This is supported by the value of the f test results where f count > f table (56.017 > 2.27) and the significance value (0.000 < 0.05), the initial hypothesis which states that economic growth, PAD, capital expenditure, DAU and regional investment are simultaneous effect on regional financial independence in accordance with the results of the study and can be accepted.

4. CONCLUSION

Based on the results of data analysis that has been described in this study, it can be concluded as follows:

- Economic growth has a positive and significant impact on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.
- Regional original income has a positive and significant effect on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.
- Capital expenditures have no effect on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.
- General allocation funds have a negative and significant effect on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.
- Regional investment has no effect on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.

- Economic growth, regional original income, capital expenditure, general allocation funds, regional investment simultaneously have a positive and significant effect on regional financial independence in Regency/City governments in North Sumatra in 2015-2019.

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