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THE EFFECT OF LOCALLY GENERATED REVENUE AND BALANCING FUNDS ON THE LEVEL OF REGIONAL FINANCIAL INDEPENDENCE

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Abstract:
This study aimed to determine the effect of locally generated revenue and balancing funds on the level of regional financial independence partially or simultaneously. The population in this study is the Lamongan District Budget Realization Report in the Office of the Financial Management Agency and Regional Assets (BPKAD). This study used an observation period from 2012-2019, with the saturation sampling method for the past eight years. The data analysis method used in this study is a multiple linear regression test with SPSS. This research used a quantitative approach, which conducted a theory test by measuring the research variables with numbers and analyzing the data using statistical procedures. The variables used are Regional Original Revenue and Balancing Funds as independent variables, with the Regional Financial Independence variable as the dependent variable. The results of this study produced findings that partially, the Original Regional Revenue significantly influences the Regional Financial Independence, and partially the Balancing Fund does not significantly influence the Regional Financial Independence. Whereas simultaneously, Regional Original Revenues and Balancing Funds significantly affect Regional Financial Independence. The contribution of Transfer Revenue (Balanced Fund) to Total Regional Income shows a high figure during the 2012-2019 research period.

Keywords: Locally Generated Revenue, Balance Funds, and Regional Financial Independence.

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INTRODUCTION

Reforms in various fields currently taking place in Indonesia have brought changes to the political, social, society and economic systems, resulting in various demands for good governance (Andriani & Wahid, 2018). One of them is the enactment of regional autonomy on January 1, 2001, which aims to realize regional independence so that regions are free to organize themselves without the central government's intervention (Asraf et al., 2019).

The era of autonomy has changed financial governance from centralized to decentralized, which requires local governments to optimize regional potential to increase revenue resources Wulandari et al., 2018. Areas with the potential for natural and human resources will generate significant revenues (Badrudin & Kuncorojati, 2017).

Likewise, with regional finance, with the existence of regional autonomy, it is hoped that each region can achieve financial independence.

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Regional financial independence can be seen from the amount of PAD obtained by each district/ city government. The greater the PAD compared to the assistance the central government provides, the district/ city government is said to be independent (Andriani & Wahid, 2018).

According to Law Number 33 of 2004, Regional Original Revenue is revenue obtained by regions that are collected based on regional regulations by statutory regulations. PAD aims to provide authority to regional governments to fund the implementation of regional autonomy by regional potential as a manifestation of decentralization. PAD comes from the results of local taxes, regional levies, separated regional wealth management, and other legal income (Nyoman Trisna Erawati, 2015).

Apart from PAD, the Balanced Fund is also a source of regional revenue that significantly contributes to the APBD structure. Law No. 33/2004 states that the balance funds are funds sourced from the APBN, allocated to regions to fund regional needs in implementing decentralization. However, it is hoped that each region will not make the balancing fund the primary source of regional income but make it a source of supporting income for the implementation of government and regional development. So, regional dependence on the central government in regional financing is getting smaller. With a smaller level of dependency, an area can be considered independent (Andriani & Wahid, 2018).

The existing literature guides this study to analyze the effect of local revenue and balancing funds on regional financial independence, especially for the Lamongan district based on the research of Nur'ainy (2013) and research of Andriani & Wahid (2018) in conducting research with similar variable.

Based on the background description, the following problems can be formulated: Does locally generated revenue affect regional financial independence in Lamongan Regency? Does the balance fund affect the level of regional financial independence in Lamongan Regency? Do local revenue and balance funds affect the level of regional financial independence in Lamongan Regency?

Siregar (2017) states that public sector accounting is an accounting activity carried out on financial events and transactions of public sector organizations. Because the most important public sector organization is government, public sector accounting can also be expressed as an accounting activity that is applied to government, both central and local governments.

Sugiarto et al. (2021) said that in public sector accounting, there are government accounting and non-government accounting. Government accounting is defined as providing services to provide users with government financial information based on recording, classifying, summarizing government financial transactions and interpreting financial information. Meanwhile, non-governmental accounting is an association between private international institutions devoted to the fields of religion, science, and culture, both technically oriented and economically oriented.

According to Halim & Kusufi (2014), regional (government) financial accounting in Indonesia is one of the areas in public sector accounting that has received significant attention from various parties since the reform in 1998. It is due to the existence of a new policy from the government of the Republic of Indonesia, which reforms various things, including regional financial management. The reform was initially carried out by replacing Law Number 5 of 1974 concerning the Principles of Government in the Regions with Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999, which replaced Law Number 32 of 1956 relating to state and regional finances. Law Number 22 Year 1999 contains the need to implement regional autonomy, often referred to as the Regional Autonomy Law.

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Regional autonomy is not an easy challenge because it must be based on the awareness that regional autonomy is an opportunity for local governments to prove their independence. It means that regional autonomy cannot be seen as a failure. The implementation of regional autonomy must be directed at accelerating the realization of community welfare through the role of community empowerment and increasing regional competitiveness (Putri et al., 2020).

According to Iryanic & Wulandari (2018), the notion of regional autonomy is the rights, authorities and obligations of the autonomous region to regulate and manage government affairs and the interests of the local community in accordance with statutory regulations. Based on these notions of regional autonomy, (Iryanic & Wulandari, 2018) concludes that the essence of regional autonomy is: Regions have the right to regulate and manage self-governing households in terms of number, type, and form of community services according to the needs of their respective regions. Regions have the authority to regulate and manage their own households, both the authority to regulate and manage their own government households in accordance with the prevailing laws and regulations.

Iryanic & Wulandari (2018) also argue that the aims and objectives of regional autonomy are as follows: So that there is no concentration of government power at the central level so that the running of government and development runs smoothly. So that the government is not only run by the central government but regions can be given the right to take care of their own needs. So that the general interest of a region can be better managed by taking into account the nature and condition of the region, which has its specificity.

Sudaryo et al. (2017) The principle of regional autonomy uses the broadest possible principle of autonomy, the principle of real autonomy, and the principle of responsible autonomy. So, the autonomy authority given to the regions is broad, real and responsible autonomy. Government guidelines are regulated in article 20 of Law no. 32 of 2004. Government administration is guided by state administration's general principles, which consist of as follows: a). The principle of legal certainty is a principle that prioritizes the basis of statutory regulations, propriety and justice in every policy of state administrators. b). The principle of orderly management is the principle that becomes the basis for the order, harmony and balance in the control of state administrators. c). The principle of public interest is the principle that prioritizes the general welfare in an aspirational, accommodating, and selective way. As stated in Law Number 32 of 2004 that "regional financial independence means the government can carry out its own financing and financial responsibility, carry it out on its own, within the framework of decentralization principles". The granting of autonomy to the regions is intended to accelerate the realization of prosperity through the autonomy that the regions do by regulating and managing their governmental affairs based on the principle of autonomy expected by the implementation of regional autonomy.

The independence of a region is seen from its APBD. The greater the source of income from regional potential consisting of PAD, the more flexibility the region will be to accommodate the interests of the community without the content of Central Government interests that do not match the needs of the people in the area(Asraf et al., 2019).

According to Halim & Kusufi (2014), regional financial independence is shown by the size of local revenue compared to regional revenue from other sources, such as central government assistance or loans. The level of Regional Financial Independence is not the main requirement in moving the regions. However, they are essential requirements that must be achieved by district/ city governments (Darsana & Aswitari, 2019). The locally generated revenue is the primary source of regional income that comes from developing regional potential and is used to improve services to the community (Awwaliyah et al., 2019).

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According to Law No. 23 of 2014, Regional Revenue is all Regional rights recognized as an addition to net asset value in the period of the relevant fiscal year. Own-source revenue is all revenue obtained from the results of local government management. According to Law No. 23 of 2014 Article 285 paragraph 1 concerning revenue paragraph 1 (a) states that the source of regional income consists of locally generated revenue, including local taxes, regional levies, proceeds from the management of separated regional assets and other legitimate regional income. Optimization in receiving Local Own Revenue must be supported by local government efforts to improve the quality of public services. Overexploitation of PAD will only burden the community, become a disincentive for the region and threaten the economy (Yasin, 2019).

According to Siregar (2017), balancing funds are funds allocated in the APBN to regions to fund regional needs in the context of implementing decentralization. The main objectives of these balancing funds are: Revenue Sharing Funds (DBH) are funds sourced from certain APBN revenues allocated to producing regions based on specific percentage figures to reduce imbalances in financial capacity between the central and regional governments. General Allocation Fund (DAU) is a fund from APBN revenue allocated to reduce horizontal imbalances (horizontal imbalances) between regional governments. Special Allocation Funds (DAK) are funds allocated in the APBN to regions to reduce regional imbalances in essential services.

Based on the literature review and various previous studies, the following is a conceptual framework regarding research on the effect of locally generated revenue and the accuracy of spending allocations on economic growth. In the context of the description provided above, the authors decided to conduct another research titled "The Effect of Locally Generated Revenue and Balancing Funds on the Level of Regional Financial Independence".

METHODS

This research used a quantitative approach, which conducted a theory test by measuring the research variables with numbers and analyzing the data using statistical procedures. Meanwhile, the quantitative approach, according to (Chandrarin, 2017), quantitative data is a type of data in the form of numbers derived from the calculation of each variable measurement attribute. This research was conducted by requesting data at the Office of the Regional Financial and Asset Management Agency (BPKAD) Lamongan Regency which is located on Jl. A. Ahmad Dahlan No. 1, Kauman, Sidoharjo, Kec. Lamongan, Lamongan Regency, or taking data through the website bpkad.lamongankab.go.id, which is conducted for three months, from April to June 2020. The research object will be examined by obtaining data for research purposes so that conclusions can be drawn after conducting research. The research object to be analyzed in this study is the effect of locally generated revenue and balance funds on the level of regional financial independence in Lamongan Regency in 2012-2019.

The population is a collection of similar elements with specific characteristics that can be used to make conclusions (Chandrarin, 2017). The population in this study is the Lamongan District Budget Realization Report which is available at the Regional Financial and Asset Management Agency (BPKAD) 2012- 2019. it shows that the research was conducted in a time-series manner. Time series data is single object data over several periods. The sample in this study was the 2014- 2018 Lamongan District Budget Realization Report. The number of samples in this study was the APBD Budget Realization Report for the last eight years at the Regional Financial and Asset Management Agency (BPKAD) of Lamongan Regency. The variables used in this study are the dependent variable (bound) and the independent variable (free). According to (Sugiyono, 2015), the dependent variable is the variable affected, or the result, because of the independent variables. The dependent variable (dependent) in this study is regional financial independence.

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Meanwhile, the independent variable is the variable that affects or causes the change or the emergence of the dependent variable. This study's independent (free) variables are locally generated revenue and balanced funds. The data collection method in this research is the documentation method, namely by recording or documenting existing data. This research data were the Lamongan District Budget Realization Report in 2012- 2019.

RESULT AND DISCUSSION

The operational definition of a variable is a definition that describes how the variable is measured. The operational definition of the research variables is Local Own Revenue. According to Law No. 23 of 2014, Regional Revenue is all Regional rights recognized as an addition to net asset value in the period of the relevant fiscal year. Original Regional Revenue is revenue obtained by a region from sources within its territory which is collected based on regional regulations by the prevailing laws and regulations. PAD aims to give authority to local governments to fund the implementation of regional autonomy by regional potential as a manifestation of decentralization. The largest source of revenue (PAD) at the provincial level is obtained from local taxes (Syapsan, 2017). The indicator of the PAD variable is the total realization of local revenue in Lamongan Regency in the LRA APBD.

Balancing Funds are funds allocated in the APBN to regions to finance regional needs in the context of implementing decentralization. Regional government revenues transferred by the central government are intended to reduce the imbalance in government funding sources between the central and local governments. If the realization of regional spending is higher than regional income, there will be a deficit (Thalib & Ekaningtias, 2019). The Balanced Fund variable indicator is the Total Realization of Balancing Funds in Lamongan Regency in the LRA APBD.

Regional Financial Independence is the ability of local governments to self-finance government activities, development, and services to people who have paid taxes and levies as a source of revenue the region needs. The importance of implementing regional financial management in a professional, accountable and transparent manner is necessary to determine the extent of the reliability of Regional Financial Statements, one of which is by analyzing the financial ratios against the APBD. The ratio consists of the level of decentralization, the ratio of financial dependency areas, and the financial ratios for regional independence (Yuliansyah et al., 2020). The indicator for the variable of Regional Financial Independence can be formulated as follows: KKD Ratio = [Total Realized PAD / (Total Realized Central Transfers + Total Realized Provincial Transfers + Total Realized Loans)] x 100.

The data analysis method in this research is to use quantitative analysis techniques with multiple linear regression analysis. Multiple regression analysis explains the influence between the dependent and several independent variables. The SPSS (Statistical Package for Social Science) software is used to make it easier to analyze. The steps of multiple linear regression analysis are as follows: Descriptive statistical test aims to test and explain the characteristics of the observed sample. The results of descriptive statistical tests are usually in the form of a table containing at least the names of the observed variables, mean, standard deviation, maximum and minimum, which is then followed by a narrative explanation explaining the interpretation of the contents of the table (Chandrarin, 2017).

Based on Ghozali's (2016) Classic Assumption Test, before conducting regression analysis, it is necessary to test classical assumptions so that the sample can genuinely represent the population as a whole. The classical assumption tests carried out in this study include: Normality test determines whether a model is normally distributed. In this study, the normality test used is to look at the distribution of data on diagonal sources on the Normal P-P Plot of Regression Standardized

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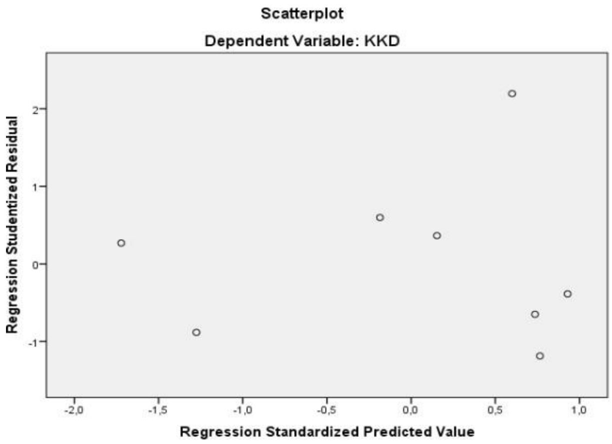
Residual graph. If the dots spread around the line and follow the diagonal line, the residual value is said to be expected. Multicollinearity testing was conducted to test the regression model and find a correlation between the independent variables. It can be seen from the tolerance value and the variance inflation factor (VIF) value to detect the presence or absence of multicollinearity in the regression. Autocorrelation Test, this test is used to test a regression model where the variance inequality of the residuals from another observation occurs. A good regression model does not occur heteroscedasticity. The heteroscedasticity test in this study was carried out by looking at the pattern of dots in the regression scatterplots. If there is no clear pattern, such as dots spreading above and below the number 0 on the Y axis, heteroscedasticity does not occur.

The heteroscedasticity Test is done to test in a linear regression model that there is a correlation between user error in period one and error in period t-1 (previous year). The method that can be used to detect the presence or absence of autocorrelation is the Durbin-Watson Test (DW Test). Multiple Linear Regression Test, the multiple regression model tests, is used to estimate or predict the value of the dependent variable (Y) by considering the dependent variables. The variable significance test (t-test) aims to test the significance of the effect of each independent variable on the dependent variable formulated in the model (Chandrarin, 2017).



Source: The data were processed using SPSS 25

Figure 1. T-test

Statistically significant at the alpha level of 5%. If the analysis results show a p-value> 0.05, then the effect of the dependent variable is not statistically significant. The F test is carried out to test whether all independent variables against one dependent variable as formulated in multiple linear regression equation models are fit (Chandrarin, 2017). If the analysis results show a p-value ≤0.05, then the regression equation model is significant at the alpha level of 5%. If the analysis results show a p-value> 0.05, then the regression equation model is not significant at the alpha level of 5%. The coefficient of determination (R2) test is a measure that shows the proportion of variations in the independent variable that is able to explain variations in the dependent variable (Chandrarin, 2017). The results of multiple linear regression in this study are as follows:

Table 1. Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-200,681	132,329	-	-1,517	,190
PAD	19,997	7,325	,986	2,730	,041
DP	-,958	17,242	-,020	-,056	,958

a. **Dependent Variable: KKD**

Source: The data were processed using SPSS 25

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From the table above, a constant value of -200.681, a value of $\beta 1$ of 19.997 and a value of $\beta 2$ of -0.958. From these results, a linear regression equation can be compiled as follows:

$\boldsymbol{Y = a + \beta 1X1 + \beta 2X2 + e}$

Y = -200,681 + 19,997$X1$ - (-0,958$X2$) + e

The coefficients of the linear regression equation above can be interpreted as follows: The constant value (α) = -200,681 states that if the independent variables, namely PAD and Balancing Fund, are considered constant, the Regional Financial Independence will increase by -200,681 points. The regression coefficient for the PAD variable (X1) = 19.997 shows that every 1 point increase in the Regional Original Income (X1) variable will encourage an increase in Regional Financial Independence by 19.997 points, assuming the PAD variable (X1) is constant. The regression coefficient of the Balancing Fund variable (X2) = -0,958 shows that every 1 point increase in the Balancing Fund variable (X2) will reduce Regional Financial Independence by -0,958 points assuming the Balancing Fund variable (X2) is constant. The standard error (e) indicates the error rate of the bully.

Table 2. T-test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-200,681	132,329	-	-1,517	,190
PAD	19,997	7,325	,986	2,730	,041
DP	-,958	17,242	-,020	-,056	,958
a. Dependent Variable: KKD					

Source: The data were processed using SPSS 25

From the above, the results obtained are that the Regional Original Income (PAD) variable has a significant number of 0.041 and a t-count of 2.730. Based on these results, the Sig. 0.041 <α (0.05) and count 2.730> t-table 2.570, so it can be concluded that H0 is accepted, Ha is rejected, which means that the regression coefficient of the Regional Original Income (PAD) variable partially or individually has a significant effect on Regional Financial Independence.

The table above shows that the Balanced Fund variable has a significant value of 0.958 and a t-count value of -0.056. Based on these results, the Sig. 0.958> 0.05 and the value of t-count -0.056 <ttable 2.570 so that it can be concluded that H0 is rejected. Ha is accepted, which means that the regression coefficient of the Balancing Fund variable partially or individually does not significantly affect Regional Financial Independence.

Table 3. R Square

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	,967[a]	,935	,909	1,30173

Source: The data were processed using SPSS 25

From the table above, column R is 0.967, indicating that the correlation or relationship between Regional Financial Independence (the dependent variable) with PAD and Balanced Fund (independent variable) is very strong because it is above 0.5 (50%) and is also close to the number 1 (100%). The adjusted R square column or the adjusted coefficient of determination is 0.909. It shows that 90.9% of the variation or change in Regional Financial Independence can be explained

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by variations in the PAD and Balancing Fund variables. At the same time, the remaining 9.1% is explained by other variables not explained in this research model.

Table 4. F Test (Simultaneous)

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	**Regression**	121,257	2	60,629	35,780	,001b
	Residual	8,473	5	1,695	-	-
	Total	129,730	7	-	-	-

a. Dependent Variable: KKD
b. Predictors: (Constant), DP, DPA

Source: The data were processed using SPSS 25

The table above shows that the ANOVA test shows a significant value of 0.001 and the F-count value of 35.780. Based on these results, the Sig. 0.001 <0.05 and the value of F-count 35.780> F-table 5.14 so that it can be concluded that H0 is rejected Ha is accepted, which means that simultaneously PAD and Balanced Funds have a significant effect on Regional Financial Independence. The Influence of Local Own Revenue on the Level of Regional Financial Independence in Lamongan Regency in 2012-2019. From the analysis results in this study for eight years, namely from 2012 to 2019, the t-statistical test was carried out with the SPSS 22 software program, the Sig. 0.041 <0.05 and also the value of t-count 2.730> t-table 2.570.

Based on these results, the regression coefficient of Regional Original Income (PAD) is significant so that H0 is rejected and Ha is accepted. It can be concluded that partially the Regional Original Income (PAD) variable has a significant effect on Regional Financial Independence. The results of this study are also in line with the research conducted by (Andriani & Wahid, 2018), (Nur'ainy, 2013), (Afrizal & Maulida, 2011) and (Tolosang, 2018), that Regional Original Income (PAD) has a partial effect on independence. The Effect of Balancing Funds on the Level of Regional Financial Independence in Lamongan Regency in 2012- 2019. The basis for accepting the hypothesis in this study is to compare the significant probability value with the significant level value α = 0.05. From the results of the analysis in this study for eight years, namely from 2012 to 2019 the t statistical test was carried out with the SPSS 22 software program, the Sig. 0.958>0.05 and also the t-count value -0.056 <ttable 2.570.

Based on these results, the Balancing Fund regression coefficient is significant, so H0 is accepted, and Ha is rejected. It can be concluded that the Balancing Fund variable partially does not have a significant effect on Regional Financial Independence in Lamongan Regency. This research is also in line with research conducted by (Purnama, 2016), which shows that Balancing Funds do not have a significant effect on Regional Financial Independence but is not in line with research conducted by (Arpani & Halmawati, 2020) and (Andriani & Wahid, 2018) which show that Balanced Funds have a significant effect on Regional Financial Independence. The Influence of Local Own Revenue on the Level of Regional Financial Independence in Lamongan Regency 2012-2019 The basis for deciding to accept the hypothesis in this study is to compare the significant probability value with the significant level value α = 0.05. From the results of the analysis in this study for eight years, namely from 2012 to 2019 which was carried out with the F statistical test with the SPSS 22 software program, the Sig value was obtained. 0.001<0.05 and also the value of F-count 35.780> F- table 5.14.

Based on these results, which means that H0 is rejected and Ha is accepted, it can be concluded that the variables of Regional Original Income (PAD) and Balancing Funds affect Regional Financial Independence. Thus, Regional Original Income (PAD) and Balanced Funds significantly affect Regional Financial Independence in Lamongan Regency. The results of this study are in line with research conducted by (Andriani & Wahid, 2018), (Nur'ainy, 2013), (Kustianingsih et al., 2018), and (Gaghana et al., 2018), which show that simultaneously Regional Original Income (PAD) and Balancing Funds have an effect significantly to Regional Financial Independence.

CONCLUSION

Based on the data collected and the tests carried out, several conclusions can be drawn: Locally generated revenue had a significant positive effect on Regional Financial Independence in Lamongan Regency in 2012-2019. Balanced Fund did not significantly affect Regional Financial Independence in Lamongan Regency from 2012-2019. Balancing funds also have a low contribution to regional financial independence in the Lamongan district. The contribution of Transfer Revenue (Balanced Fund) to Total Regional Income shows a high figure during the 2012-2019 research period. It means that the level of dependence of the Lamongan district government on the Central Government is very high. Locally generated Revenue and Balancing Funds significantly positively affected Regional Financial Independence in Lamongan Regency from 2012- 2019.

The main finding in this study is that local revenue affects regional financial independence in Lamongan Regency while balancing funds are not independent of regional financial independence in Lamongan Regency. This finding is the main finding in this study because of its hypothesis. The contribution of the results of this study is for further researchers to be used as a reference in conducting research with the same theme. The contribution is also for the government to consider and make formulations or policies related to increasing local revenue and balancing funds. One of the implications of this research is for the government to make formulations or policies related to how to increase local revenue to increase regional financial independence in the Lamongan Regency. With the results of this study, the government can consider and, at the same time, make specific policies on how balancing funds can increase the original income area.

The limitation of this research is that it only uses two independent variables and one dependent variable, and the period used is not up to date. The suggestions in research are: Future researchers are expected to examine other factors that affect regional financial independence or add to a more extended time series because this study shows that the balance funds do not affect regional financial independence. So that it will produce even better research for the government, it is expected that this research can consider increasing locally generated revenue and reducing transfer funds from the central government or balanced funds.

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