The Effect Of Regional Native Income And Capital Expenditure On Regional Financial Independence In District /City Goverments In West Java Province Year 2016 -2020

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Abstract.
The purpose of this study is to find out the influence of Regional Native Income and Capital Expenditures partially and simultaneously on Regional Financial Independence in Regency / City Governments in West Java Province in 2016-2020. This research uses quantitative methods. The sampling technique in this study used census methods (saturated samples) from 27 district/city samples with observation years for 5 years from 2016-2020 with a total of 135 observation data. The statistical analysis of the data used in this study is the regression analysis of panel data with Eviews 9. The results of the research obtained showed that the original income of the region and capital expenditures were able to explain the financial independence of the region by 99.36%, while the remaining 0.64% was explained by other variables outside the study.The results of the partial test showed that the original income of the region had a significant positive effect on regional financial independence, while capital expenditure had no effect on regional financial independence. The results of the test simultaneously, showed that the original income of the region and capital expenditures affected the financial independence of the region.

Keywords: *Regional Native Income (PAD), Capital Expenditure,Regional Financial Independence*

I. INTRODUCTION

According to the Regional Autonomy Law Number 22 of 1999 which was later revised to become Law Number 23 of 2014. Regarding regional government in Indonesia, it is carried out based on the principle of regional autonomy which is the right, authority and obligation of the autonomous region to regulate and manage their own government affairs and the interests of the local community in the area itself to regulate the running of its regional government independently. Regional financial independence means that the government can carry out its own financing and financial accountability within the framework of the principle of decentralization. The financial independence of a region can be seen from the size of the regional original income compared to the level of regional income from other sources such as central government assistance or other loans (Susanti et al, 2016).The purpose of regional autonomy is to create independence to optimally develop the region and all development activities are no longer concentrated in the center so as to improve the welfare of the people and public services, as well as the optimal use of financial resources in accordance with regional needs. The government is expected to be able to meet public needs by improving public services to be better and making improvements in various sectors that have the potential to developed into a source of Regional Original Income (PAD) (Fadli, Ethika and Rifa, 2015).West Java is an area with contrasting characteristics with two identities, urban communities who mostly live in the Greater Jakarta area (around Jakarta) and Greater Bandung and traditional communities living in rural areas. West Java Province consists of 18 districts, 9 municipalities, 627 sub-districts, 645 urban villages and 5,312 villages. In 2017, West Java for more than three decades has experienced rapid economic development. Currently, the increase in the modern economy is marked by an increase in the manufacturing and service sectors. Besides social and infrastructure development, the manufacturing sector accounts for the largest contribution through investment, almost three quarters of non-oil manufacturing industries are centered around West Java.

The ability of local governments to manage regional finances is contained in the Regional Revenue and Expenditure Budget (APBD) which describes the ability of regional governments to finance activities for implementing government tasks, development and community social services. According to Kurniawati, et al (2017), one of the financial problems that are still faced by local governments in Indonesia is the dependence of local governments on financial transfers from the central government and the low ability of regions to explore potential sources of income. The source of income in question is local revenue (PAD), which consists of local tax revenue, regional levy income, income from separated wealth management, and other legitimate regional original income.Research on the effect of regional original income and capital expenditure on the ratio of regional financial independence has been carried out by several researchers, including by Nindita and Rahayu. The results show that local revenue, general allocation funds, and capital expenditures have a simultaneous effect on the level of regional financial independence. Partially, local revenue has a positive effect on the level of regional financial independence, general allocation funds have no effect on the level of regional financial independence, and capital expenditures have a negative effect on the level of regional financial independence. In the research of Setiawan, et al. The results show that only PAD has a positive influence on Regional Financial Independence, while DAU and DAK have no effect. DAU and DAK do not have a role in increasing Regional Financial Independence Based on the background stated above, the authors are interested in conducting research with the title "The Effect of Regional Original Income and Capital Expenditures on Regional Financial Independence in Regency / City Governments in West Java Province in 2016-2020".

II. LITERATURE REVIEW

Regional Original Income (PAD)

Based on the Law of the Republic of Indonesia Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments article 1 number 18 that "Regional original income, hereinafter referred to as PAD, is income obtained by the region which is collected based on regional regulations in accordance with statutory regulations." According to Puguh (2021) in his research entitled The Influence of PAD, DAU and DAK on Provincial Financial Independence on the Island of Sumatra in 2010-2016, it generates Regional Original Income with a Significantly Positive Effect on Financial Independence in Provinces on the Island of Sumatra. and the General Allocation Fund and the Special Allocation Fund have no effect on financial independence in the province on the island of Sumatra.

Capital Expenditure

According to Government Regulation of the Republic of Indonesia Number 12 of 2019 concerning Regional Financial Management, capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than 1 (one) accounting period.According to Government Accounting Standards (2021) capital expenditures are budgetary expenditures for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Capital expenditures include, among others, capital expenditures for the acquisition of land, buildings and buildings, equipment, and intangible assets. According to siska Yulia Defitri (2020) in her research entitled The Effect of Capital Expenditure and Employee Expenditure on the Level of Regional Financial Independence (Empirical Studies in Regencies and Cities in West Sumatra Province) whose research results are Partial Capital Expenditures have a Negative and Significant Effect on the level of Regional Financial Independence, Personnel Expenditure Partially Has No Effect on the Level of Regional Financial Independence, and Capital Expenditure and Employee Expenditure Factors Determine the Effect of Regional Financial Independence Level in West Sumatra in 2016-2017 Only 12.5%.

Regional Financial Independence

According to Patarai (2017:201) "The ratio of regional financial independence describes the level of regional dependence on external funding sources. The higher the independence ratio means that the level of regional dependence on external assistance (especially the central and provincial governments) is lower. The higher the independence ratio, the higher the community's participation in paying regional taxes and levies which are the main components of PAD. According to siska Nareswari Listya Nindita, Sri Rahayu (2018) in her research entitled The Effect of Regional Original Income (PAD), General Allocation Funds (DAU), and Capital Expenditures on the Level of Regional Financial Independence in West Java Province Regency/City whose research results are the results of research shows that local revenue, general allocation funds, and capital expenditures have a simultaneous effect on the level of regional financial independence. Partially, local revenue has a positive effect on the level of regional financial independence, general allocation funds have no effect on the level of regional financial independence, and capital expenditures have a negative effect on the level of regional financial independence.

Frame Work

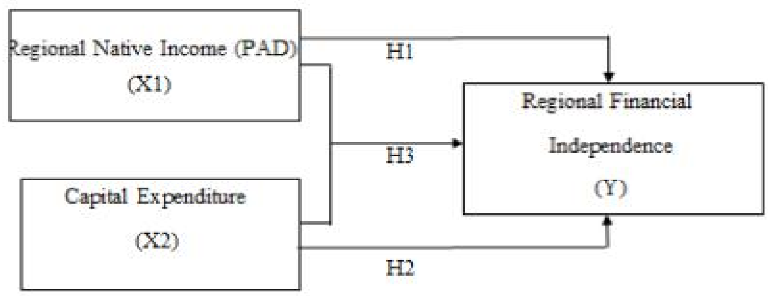

Fig 1. Research Framework

Hypothesis:

H1: Regional Native Income (PAD) has a positive and significant effect on Regional Financial Independence

H2: Capital Expenditure has a positive and significant effect on Regional Financial Independence

H3: Regional Native Income (PAD) and Capital Expnditure have a positive and significant effect on Regional Financial Independence

III. METHODS

The type of research used is quantitative research by looking for causal associative relationships. According to Soentoro (2015:14) "Associative Research is research that aims to determine the relationship and influence between two or more variables" In this study, local revenue uses the ratio of the degree of contribution to PAD, namely the comparison between local revenue and total regional income. In this study, capital expenditures use a capital expenditure efficiency ratio which is a comparison between the realization of capital expenditures and the capital expenditure budget. In this study, the dependent variable used is regional financial independence. This ratio describes the level of regional dependence on external funding sources. The higher the independence ratio means that the level of regional dependence on external assistance (especially the central and provincial governments) is lower.

The ratio of regional financial independence is calculated by comparing the amount of revenue from local revenue divided by the amount of transfer income from the central and provincial governments as well as regional loans. The population used in this study were all district/city government financial reports in West Java Province, as many as 27 local governments, and the financial statements used in this study were financial reports published from 2016 to 2020. The sample in this study is the Budget Realization Report (LRA) for all regencies/cities in West Java Province from 2016 to 2020, obtained from the official website of the Directorate General of Fiscal Balance (DJPK) www.djpk.kemenkeu.go.id. The data analysis technique in this study used quantitative analysis consisting of descriptive statistical analysis and panel data regression analysis. This research was conducted using statistical methods assisted by Microsoft Excel 2019 and Eviews-9 programs.

IV. RESULT AND DISCUSSION

RESULT

The measurements used in the descriptive statistical analysis in this study used the minimum, maximum, median, mean, and standard deviation values.:

Table 1. Descriptive Statistical Test

	X1	X2	Y
Mean	22.15111	117.0267	33.43906
Median	17.89959	104.8752	23.08952
Maximum	46.30586	317.2652	86.50881
Minimum	6.609613	36.08453	6.916906
Std. Dev.	11.30722	47.05853	22.43413
Observations	135	135	135

Based on the results of the calculation of table 1 above, the observation value shows the amount of data used in the study, which is 135 data, which is the number of samples during the 2016-2020 research period. Variable X1 (Regional Original Income) has a minimum value of 6.609613, a maximum value of 46,30586, a median value of 17.89959 and has an average (mean) of 22.15111 with a standard deviation of 11.30722. While the variable X2 (Capital Expenditure) has a minimum value of 6.609613, a maximum value of 317,2652, a median value of 104,8752 and has an average value (mean) of 117,0267 with a standard deviation of 47,05853. And the variable Y (Regional Financial Independence) has a minimum value of 6.916906, a maximum value of 86.5088, a median value of 23.08952 and has an average value (mean) of 33,43906 with a standard deviation of 22,43413.

Table 2. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.098114	1.871932	-2.723450	0.0076
X1	1.747761	0.080507	21.70929	0.0000
X2	-0.001518	0.006223	-0.243945	0.8077

Based on table 2 which shows the results of processing the Fixed effect model, the panel data regression equation can be formed as follows:

Y= -5.098114 + 1.747761 PADit -0.001518BMit + _it

Information:Y = Regional Financial Independence Ratio,PAD = Regional Original Income, and BM = Capital Expenditure .Before knowing the results of the f test, it is necessary to know the value of t_table first. t_table can be found in the t-test table with a significance of 5% (0.05) with the formula t_table = (α/2 ; n-k-1) where n is the number of data and k is the number of independent variables. Then = 0.05/2 = 0.025 and n-k-1 = 135-2-1 = 132. Then the t_table value is 1.97810. Based on table 2 the results of the partial test (t test) are as follows:

The Regional Original Income (X1) variable has a coefficient value of 1.747761 with a probability value of 0.0000 which is smaller than the level of = 0.05 (0.0000 < 0.05) and the value is 21.70929 > 1.97810. then it is accepted and rejected, which means that the Regional Original Income variable partially affects the regional financial independence.The Capital Expenditure variable (X2) has a coefficient value of -0.001518 with a probability value of 0.8077 which is greater than the level of = 0.05 (0.8077> 0.05) and a value of < -0.243945 <1.97810. Then it is accepted and rejected, which means that the capital expenditure variable partially has no effect on regional financial independence.

Table 3. Calculated F-test and Coefficient of Determination

R-squared	0.994927	Mean dependent var	33.43906
Adjusted R-squared	0.993587	S.D. dependent var	22.43413
S.E. of regression	1.796621	Akaike info criterion	4.197487
Sum squared resid	342.1519	Schwarz criterion	4.821583
Log likelihood	-254.3303	Hannan-Quinn criter.	4.451102
F-statistic	742.4092	Durbin-Watson stat	2.085787
Prob(F-statistic)	0.000000		

Before knowing the results of the f test, it is necessary to know the value of the F_table first. F_table can be searched in the f test table with a significance of 5% (0.05) with df1= k-1 and df2= n-k where k is the number of independent variables plus the dependent variable and n is the number of data used. In this research, it is known that df1 = 3-1=2 and df2 = 135-3=132, so the value of F_table obtained by looking at the distribution table of F is 3.06. Based on table 3, it is known that that is 742.4092 > 3.06 and the prob value (F-statistic) is 0.000000 < 0.05. Then it is accepted and rejected, which means that the variables of local revenue and capital expenditure simultaneously have a significant effect on independence. regional finance.Based on the results of testing the fixed effect model presented in table 3 shows the Adjusted R-Squared value of 0.993587 or 99.36%. This indicates that the independent variable consisting of local revenue and capital expenditure is able to explain the dependent variable, namely regional financial independence of 0.993587 or 99.36%, while the remaining 0.006413 or 0.64% is explained by other variables outside the study.

V. DISCUSSION

Regional Native Income calculated from the ratio of the degree of decentralization has an average value (mean) of 22.15111, the number of districts/cities with below-average local revenue is 62.22%, while those with above-average local revenue are 37.88%. Capital expenditures calculated from the efficiency ratio of capital expenditures have an average value (mean) of 117.0267, the number of districts/cities with capital expenditures below the average is 59.26%, while those with capital expenditures above the average are 40. 74%. Regional financial independence in this study was measured by the ratio of financial independence which had an average value (mean) of 33,43906. The number of districts/cities that have financial independence below the average is 63.70%, while those with independence above the average are 36.30%. The following is a discussion of the research results to answer the objectives of this research:

1. The Effect of Regional Original Income on Regional Financial Independence in Regency/City Governments in West Java Province 2016-2020

The coefficient of regional original income (X1) is 1.747761, meaning that if the other independent variables have a fixed value and local revenue has increased by one unit, then the Y variable (regional financial independence) will increase by 1.747761. There is a positive relationship between local revenue and regional financial independence. Based on the results of the partial test (t test), the local original income variable (X1) with a value of t_count> t_table is 21.70929 > 1.97810 and a prob (F-statistic) value of 0.0000 <0.05, meaning that H_a 1 is accepted and H_0 1 rejected. The test results in this study indicate that local original income partially has a positive significant effect on regional financial independence in the Regency / City government in West Java Province in 2016-2020. This means that every time there is an increase in regional original income, it will be followed by an increase in regional financial independence. This research is in line with the research of Puguh (2021) which says that local revenue has a positive effect on the level of regional financial independence.

2. The Effect of Capital Expenditure on Financial Independence in Regency/City Governments in West Java Province 2016-2020.

The coefficient of capital expenditure (X2) is -0.001518, meaning that if the other independent variables have a fixed value and capital expenditure increases by one unit, then the Y variable (regional financial independence) will decrease by -0.001518. There is a negative relationship between capital expenditure and regional financial independence. Based on the results of the partial test (t test), the capital expenditure variable (X2) with a value of t_count > t_table is -0.243945 < 1.97810 and the value of prob(F-statistic) 0.8077 > 0.05 means that H_0 2 is accepted and H_a 2 rejected. The test results in this study indicate that capital expenditure partially does not have a significant positive effect on regional financial independence in Regency/City governments in West Java Province in 2016-2020. This means that an increase in capital expenditure is not always followed by an increase in PAD, which in turn can increase regional financial independence. This research is in line with research by Saraswati and Nurharjanti (2021) who say that capital expenditure has no effect on regional financial independence. The reason is suspected to be because the allocation of capital expenditures is not well targeted and consumptive in nature which can reduce productivity in the distribution of funds issued (Wahyuni & Ardini, 2018). According to Imawan & Wahyudin (2014), the possibility of receiving and allocating the capital expenditure budget is smaller than the amount of funds that have been determined in the APBD. This condition can lead to a decrease in wealth and will increase the burden of general allocation funds, thereby increasing the level of dependence on the central government.

3. The Effect of Regional Original Income and Capital Expenditure on Regional Financial Independence in Regency/City Governments in Banten Province in 2012-2021

Based on the simultaneous test (f test), F_count>F_table is 742.4092 > 3.06 and the value of prob(F-statistic) is 0.000000 <0.05 then H_a 3 is accepted and H_0 3 is rejected, which means the results of the simultaneous test show that the variables of regional original income and capital expenditures simultaneously affect regional financial independence in Regency/City governments in West Java Province in 2016-2020. This research is in line with the research of Nindita and Rahayu (2018) which states that local revenue, general allocation funds, and capital expenditures have a simultaneous effect on the level of regional financial independence. Based on the coefficient of determination in this study, the Adjusted R-Squared value is 0.993587, which means that the contribution of the regional original income and capital expenditure variables to regional financial independence is 99.36%, while the remaining 0.64% is influenced by other variables that are not used. in research.

VI. CONCLUSION

Based on the results of the research and discussion that have been described regarding the effect of regional original income and capital expenditures on regional financial independence in Regency/City governments in West Java Province in 2016-2020 Partial test results of regional original income have a significant positive effect on regional financial independence in Regency/Municipal Cities in West Java Province in 2016-2020. The partial test results of capital expenditures do not have a significant positive effect on regional financial independence in districts/cities in West Java Province in 2016-2020. Simultaneous test results show that local revenue and capital expenditures have a significant effect on regional financial independence in Regency/City governments in West Java Province in 2016-2022.

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