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THE INFLUENCE OF LOCAL REVENUE, CAPITAL EXPENDITURE, AND BALANCE FUNDS ON REGIONAL FINANCIAL INDEPENDENCE IN ACEH PROVINCE

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Abstract

This study aims to analyze the effect of Regional Original Revenue (PAD), Capital Expenditure, and Balance Fund on Regional Financial Independence in Aceh Province for the period 2012-2023. This study uses secondary data from the Aceh Government Budget Realization Report which is analyzed by multiple linear regression methods. The results showed that PAD has a positive and significant effect on Regional Financial Independence, which indicates that an increase in local revenue is able to strengthen regional financial independence. In contrast, capital expenditure has a negative and significant effect, meaning that any increase in capital expenditure tends to reduce regional financial independence, especially if it is not supported by an increase in PAD. The Balance Fund also has a negative and significant effect, which means that the greater the funds received from the central government, the lower regional financial independence. Dependence on transfer funds reflects the weak ability of regions to finance government needs independently.

Keywords: ***Local Revenue, Capital Expenditure, Balance Fund, Regional Financial Independence***

INTRODUCTION

During the reformation period of 1998, Indonesia's constitutional system and policies underwent many changes and reforms. One of them is how authority is shared between the local government and the central government, which is regulated by the regional autonomy policy. Regional autonomy gives regions the authority to regulate and manage the interests of local communities in accordance with laws and regulations and based on the wishes of the community (Ullo et al., 2023). One of the main objectives of the implementation of regional autonomy is to create regional independence through the optimization of local revenue potential. This policy is in line with fiscal decentralization as stipulated in Law No. 33/2004, which regulates the distribution of transfer funds from the central government to local governments. Through this policy, local governments are expected to be able to manage their finances independently by maximizing local resources, so as to increase regional fiscal independence (Riskiyani & Nasir, 2021).

According to Bakar & Said, (2021) Regional financial independence reflects the ability of a region to independently finance government activities, development, and public services. This revenue comes from community contributions through taxes and levies. Aceh is one of the provinces that still has a low level of financial independence. Despite being ranked fifth highest in local revenue in Sumatra, its level of financial independence is still in the weak category (Faisal et al., 2023). This condition occurs because the regions in Aceh Province have not been able to fully optimize the potential of their regions as a source of regional revenue, so they are considered not to have succeeded in achieving regional independence (Malau & Simarmata, 2020). In 2012 it became the lowest level for the last 12 years at 9.82 percent, the level of regional financial independence began to increase in 2022 by 21.2 percent and in 2023 by 28.2 percent. It can be concluded that the level of regional financial independence of Aceh Province for 11 years is very low. If it is associated with the relationship pattern and the level of regional financial independence, then the level of independence of Aceh Province is classified in the category of very low independence with an instructive relationship pattern. Regional Original Revenue (PAD) experienced fluctuations but overall increased. In 2019, PAD was recorded at IDR 2.69 trillion, but fell to IDR 2.57 trillion in 2020 and IDR 2.50 trillion in 2021, reflecting challenges in managing local revenue. A positive trend began in 2022 with a significant increase to IDR 2.91 trillion, and continued to grow to IDR 2.98 trillion in 2023. Despite the increase in PAD, the level of regional financial independence in 2023 only reached 28.2%, indicating that more than 71% of revenue is still dependent on central government transfers.

Another factor affecting regional financial independence is capital expenditure. In the 2019-2023 period, capital expenditure experienced fluctuations that reflected the dynamics of regional budget management. These fluctuations indicate the challenge of maintaining consistency in the allocation of capital expenditure, which is important to support economic growth and regional development in a sustainable manner. Another factor affecting regional financial independence is the balancing funds. Regional dependence on balancing funds is still significant despite a decrease in several years. Based on the description above, the authors are interested in conducting research with the title “The Effect of Regional Revenue, Capital Expenditure, and Balance Fund on Regional Financial Independence in Aceh Province”.

LITERATURE REVIEW

Regional Financial Independence

Based on Law Number 23 of 2014, regional financial independence is defined as the ability of local governments to finance their government activities independently and responsibly, in accordance with the principles of decentralization. This level of independence can be measured by how much the contribution of Regional Original Revenue (PAD) is compared to revenue sourced from other parties, such as assistance or loans from the central government (Susanti et al., 2016).

Local Revenue

Law number 28 of 2009 defines local own-source revenue as a financial source that is extracted from the region concerned and consists of legitimate local own-source revenue as well as the results of local taxes, local levies, and the results of the management of separated regional assets (Agusta, 2020). Optimal PAD management can increase regional income, so as to reduce or even replace dependence on central transfers. Thus, regions that are able to achieve this condition can be categorized as financially independent regions. research results (Oktavia, 2024; Debora et al., 2023) which prove that PAD has a positive and significant effect on regional financial independence.

H1: Regional Original Revenue has a positive and significant effect on regional financial independence.

Capital Expenditure

Based on Permendagri (2006) number 13 article 53 paragraph (1), capital expenditure as regulated in article 50 C is an expenditure made in the context of purchasing/procuring or building tangible fixed assets that have a useful life of more than 12 (twelve) months to be used in government activities, including in the form of land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets. The high level of capital expenditure funded from regional finances indicates the ability of the region to carry out government functions. The improvement of public services carried out through capital expenditures sourced from local revenues, compared to funds from the central government such as DAU or DAK, reflects that local revenues are sufficient to support government activities independently. In research conducted by (Riyadi, 2022; Angelina et al., 2020) capital expenditure has a positive and significant effect on regional financial independence.

H2: Capital Expenditure has a positive and significant effect on regional financial independence.

Balance Funds

The balance funds stipulated by law number 33 of 2004 concerning financial balance between the central government and local governments, are funds given to regions to meet regional needs in the context of implementing decentralization. The increase in the flow of decentralization funds actually encourages autonomous regions expenditures to increase faster than the growth of their fiscal capacity. The broad authority for regions to design and utilize the available budget has indirectly weakened their fiscal capacity. As a result, many local governments are now increasingly dependent on funding support from the central government in the form of decentralization transfers. In research conducted by (Wasil et al., 2020) and (Nurkhayati, 2022) that balancing funds have a negative effect on regional financial independence.
H3: Balance funds have a negative effect on regional financial independence.

METHOD

The object of this research is Regional Financial Independence as the dependent variable, while Regional Original Revenue, Capital Expenditure and Balance Fund as independent variables. The research location was conducted in Aceh Province. The population and samples used in this study are the Budget Realization Reports (LRA) of the Aceh Provincial Government for 2012-2023. The type of data used in this study is secondary data using multiple linear regression for Local Revenue, Capital Expenditure, Balance Fund, and Local Financial Independence for the period 2012-2023 with the following model equation:

$$TKKD_t = \alpha + \beta_1 PAD_t + \beta_2 BM_t + \beta_3 DP_t + e_t$$

RESULTS AND DISCUSSION

The results of multiple linear regression tests that show the relationship between the research variables are explained as follows:

Table 1. Multiple Linear Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	621.7272	211.8437	2.934839	0.0189
PAD	0.000935	0.000128	7.336532	0.0001
BM	-0.000259	0.000110	-2.345058	0.0470
DP	-0.000147	6.60E-05	-2.230407	0.0563

Source: Data processed by author, 2024

The Effect of Local Revenue on Regional Financial Independence

Based on the table, it is known that the coefficient of PAD is 0.000935 with a probability value of 0.0001. Thus the probability shows a result <0.05 (α) and the coefficient is positive, so it can be concluded that the PAD variable has a positive and significant effect on regional financial independence. The greater the PAD received by a region, the more independent the region will be in managing its regional finances. The results of this study are in line with previous research conducted by (Debora et al., 2023; Oktavia, 2024; Asnawi, 2020) which shows that local own-source revenue has a positive and significant effect on regional financial independence.

The Effect of Capital Expenditure on Regional Financial Independence

The coefficient of capital expenditure is -0.000259 with a probability value of 0.0470. Thus the probability shows a result <0.05 (α) and the coefficient is negative, so it can be concluded that the capital expenditure variable has a negative and significant effect on regional financial independence. This means that capital expenditure has a negative impact on regional financial independence. Any increase in capital expenditure can lead to a decrease in regional financial independence, especially if it is not offset by an increase in local revenue. When a region's capital expenditure budget is high but not supported by an increase in own-source revenues, the capital expenditure financing will depend on general allocation funds from the central government. As a result, local governments become more dependent on the central government, hindering their financial independence. The results of this study are in line with previous research conducted by (Malau et al., 2020; Akbar, 2022) which shows that capital expenditure has a negative and significant effect on regional financial independence.

The Effect of Balance Fund on Regional Financial Independence

The coefficient of Balance Fund is -0.000147 with a probability value of 0.0563. Thus, the Balance Fund variable has a significant negative effect on regional financial independence. This means that the greater the Balance Fund received, the lower the level of regional financial independence in Aceh Province. Dependence on the Balance Fund describes the role of external assistance needed by the region to cover shortfalls in financing government programs. Regional financial independence will tend to strengthen if the contribution of Regional Revenue exceeds the amount of Fiscal Balance Fund received (Ardiansyah, 2023). The results of this study are in line with previous research conducted by (Asnawi, 2020) and (Nurkhayati, 2022) which shows that balancing funds have a negative and significant effect on regional financial independence.

CONCLUSION

Regional Revenue has a positive and significant influence on regional financial independence in Aceh Province. Capital Expenditure has a negative but significant effect on regional financial independence in Aceh Province. Balance Fund has a negative but significant influence on regional financial independence in Aceh Province. Local governments play an important role in increasing local financial independence by optimizing local revenue and increasing the efficiency of capital expenditure. In addition, prudent management of the Balance Fund, with priority on sustainable development programs and increasing regional capacity, is also needed to support financial independence in Aceh Province.

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