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Analysis of Factors Affecting Original Local Government Revenue of East Java Province

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Abstract

This study aims to analyze the factors that influence the original local government revenue of the province of East Java, namely: Population, gross regional domestic product, and inflation from 2015 to 2021. With multiple linear regression analyses, it is known that the Population has no significant negative effect on original local government revenue. Meanwhile, gross regional domestic product and inflation have a significant positive effect on original local government revenue.

Keywords
population; gross regional domestic product; inflation; original local government

I. Introduction

Regional autonomy and fiscal decentralization aim to make the government regions have regional financial independence. Therefore, the role of original local government revenue, which is part of regional income, is significant in determining regional financial performance. Measurement of regional financial performance Currently, many things are done, among others, by looking at the ratio between original local government revenue and total income Regional income in the regional expenditure revenue budget. The more the original local government revenue contributes to the regional revenue budget, the regions are dependent on the centre. One thing to note is that the increase in original local government revenue does not mean that the region must compete to make new taxes, but more on efforts to utilize the region's potential optimally. The enactment of legal products regarding the government in these areas brings fresh air to implementing decentralization.

Consequently, the local government must be able to regulate and manage the house the ladder itself. Carrying out the task is not as easy as turning your palm hands because one of them needs financial ability, namely: first, is about how local governments can generate financial running the organization, including empowering the community; second, how the local government sees its function to develop regional economic capacity. The main characteristics of an ability region are located on the region's financial capacity, which means the autonomous region must have the authority and ability to explore sources of its finances.

Even though it is still in the Covid-19 pandemic situation, the realization of East Java's 2021 APBD revenue is ranked first nationally, reaching 103.97%. From the revenue target of IDR 32.9 trillion, as of December 31, 2021, IDR 34.2 trillion has been realized. The second rank was occupied by Gorontalo Province at 102.28%, while West Java Province occupied the third rank of 102.07% (jawapos.com, 2022).

With the enactment of Regional Autonomy, regencies and cities have broader authority. As stated in Law no. 32 of 2004, Regional Autonomy is the right, authority, and obligation of an autonomous region to regulate and manage its government affairs and the local community's interests following statutory regulations. In Law No. 32 of 2004, Chapter III concerning the Division of Government Affairs, it is also explained that

Regional Governments can exercise the broadest possible autonomy to regulate and manage government affairs based on autonomy and co-administration tasks. However, their government affairs are determined by law to be the affairs of the central government, namely, foreign policy, defence, security, judiciary, national monetary and fiscal, and religion.

A financial balance between the central and regional governments is enforced to support the optimal implementation of regional autonomy. This financial balance is regulated in Law No. 33 of 2004. Fiscal decentralization held in Law No. 33 of 2004 consists of three types: Regional Taxes (Tax Assignment), Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds. With this fiscal decentralization, local governments are expected to optimize their regional revenues so that local governments are independent in their financial management and can reduce dependence on the central government.

This independence can be achieved by optimizing original local government revenue sourced from regional taxes, levies, separated regional wealth management results, and other legitimate Original Local Government Revenue, as regulated in Law no. 33 of 2004 article 6. However, in the principle of financial balance policy in Law no. 33 of 2004, article 2 explains that the economic balance between the government and local governments is a subsystem of state finances due to the division of tasks between the government and regional governments. The central government is also tasked with maintaining financial stability and balance in the regions, for which the Central Government provides a Balancing Fund. In-Law no. 33 of 2004, article 3 explains that the Balanced Fund aims to reduce the fiscal gap between the government and regional governments and between regional governments. This balancing fund consists of Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds.

Economic growth is still an important goal in a country's economy, especially for developing countries like Indonesia (Magdalena and Suhatman, 2020).

Economic growth is the process of change in a country's economy sustainably towards a better state for a certain period. Economic growth can be defined as the increase in the production capacity of an economy that is realized in the form of an increase in national income. This means that the local revenue will cause an increase in Similarly to the achievement of economic growth. Highly flexible in terms of utilization, an area of? More flexibility in planning the budget allocation for development activities in accordance with its economic agenda, including the construction of basic facilities and infrastructure that play a role in supporting optimal economic growth (Yasin, 2020).

Previous research gap the influence of Population and inflation on the ups and downs of the Regionally-Generated Revenue, which amounted to 97.70%, while the remaining 2.3% was influenced by other variables not included in the regression models (Oktiani & Muhariah, 2021). The Population does not affect Own-source Revenue, while the Gross Regional Domestic Product positively influences own-source revenue in Simeulue Regency for analysis 2007-2016 (Juliansyah & Sulkadria, 2018). GRDP, Inflation, and Population have a positive and significant effect on original local government revenue, and Population has the most significant influence. Simultaneous test results show that GRDP, Inflation, and Population variables simultaneously significantly affect original local government revenue. When these variables can be optimized, the economic activity in Pati Ex-Residency will develop well (Priyono & Handayani, 2021).

II. Review of Literature

The results of previous research regarding original local government revenue, namely: the source of growth through the original local government revenue component, namely the average Regional Tax component has an elastic assessment, regional levies have an inelastic estimate, profits of regionally owned enterprises and regional assets have a unitary evaluation, and other features. Legitimate income is rated Elastic so that the source of the growth of original local government revenue in Mimika Regency is from the Regional Tax Realization components, Regional Owned Enterprise Profits, and Regional Assets (Wandosa, Kambu, & Numberi, 2017). The Population, GRDP, and government expenditures have a significant positive effect on the original local government revenue of North Sumatra Province (Mesra, 2018).

The Population is not correlated with local taxes; a high population does not increase local taxes. The Population has a significant positive correlation with economic growth; an increased population can also boost economic growth. The number of residents has a significant positive correlation with regional spending; the higher the people, the regional expenditures made by the regional government will also increase. Regional taxes have a significant positive correlation with regional expenditures; the higher taxes obtained by local governments can increase regional budgets. Local taxes are significantly positively correlated with economic growth, and the higher the taxes received by local governments indicate good regional economic development. Economic growth is significantly positively correlated with regional spending; the increasing economic growth, the government is also making regional spending with more budgets to improve the economy (Jatmiko & Wicaksono, 2019).

The original local government revenue model shows that consumption, GRDP, and Population have a significant positive effect. The previous year's retribution had an insignificant negative impact on original local government revenue. The tax model shows that consumption has a significant positive effect, and the last year's local tax variable has a positive but not significant impact. The Retribution model shows that GRDP has an insignificant negative impact. The Population does not have a considerable effect. The previous year's retribution has a positive and low effect. While the other regional income model shows that the Population does not significantly affect, original local government revenue has a significant positive impact (Prana, 2016). The effectiveness of the parking tax has a substantial relationship with original local government revenue. However, the contribution of parking taxes has a considerable effect on original local government revenue in the Batam City Dispenda (Harahap & Effendi, 2020).

Per capita income has a significant positive effect on original local government revenue. A positive trend in per capita income can increase the original local government revenue. The number of companies has a significant positive effect on original local government revenue. The more the number of companies will increase the tax contribution. The number of residents has a significant positive impact on original local government revenue. An increase in Population will increase tax revenues on an ongoing basis. Per capita income is the dominant factor contributing to improving the original local government revenue of Majene Regency in 2014-2018 (Mahfudh, Saleh, & Saleh, 2021).

The management of separated regional assets and other legal income and the smaller the loan and central assistance, the more independent the region. With the increasingly independent area, the economic growth in the area can experience an increase. This is because the region can manage economically, efficiently, and effectively and the lack of intervention by the central government. Economic growth. This means that the region's income will also cause an increase in the achievement of economic growth. Which is very flexible in terms of utilization, causes the regions to be more flexible in planning the allocation of the budget for development activities following its economic agenda, which includes the development of basic facilities and infrastructure that support optimal economic growth (Yasin, Analysis Of Regional Original Income Levels in Regional Financial Performance on Economic Growth In East Java Province, 2019).

III. Research Method

The quantitative research method is one type of research with systematic, well-planned, and structured specifications clearly from the beginning to research designs. This type of research is causal associative research to determine the effect of Population, Gross Regional Domestic Product (GRDP), inflation, and original local government revenue of East Java province in 2015-2021. The operational definition of the Variable is shown in the following table:

Table 1. Definition of Operational Variable

No	Variable	Concept	Indicator	Measurement
1	Population (X_1)	The populations are all people who live in an area for six months or more and or those who live for less than six months but aim to settle down (BPS RI, 2022)	Population = LN (Population)	Ratio
2	GRDP (X_2)	The amount of added value generated from all goods and services produced in an area within one year (BPS, 2017)	GRDP = LN (GDRP)	Ratio
3	Inflation (X_3)	A continuous increase in prices in an economy (Supriyanto, 2007).	$Inflation_n = \frac{CPI_n - CPI_{(n-1)}}{CPI_{(n-1)}}$	Ratio
4	Original Local Government Revenue (Y)	Revenues earned by the regions are collected based on regional regulations following statutory regulations (Undang-Undang No. 33 Tahun 2004, 2022).	Original Local Government Revenue = L.N. (Original Local Government Revenue)	Ratio

The sample is taken based on specific objectives to meet these objectives, namely, to determine the effect of Population, gross regional domestic product, and inflation on the original local government revenue of the province of East Java in 2015-2021. The type of data used in this study is secondary data for seven years obtained from https://jatim.bps.go.id/

Table 2. Research Data for the period 2015-2021

Year	Original Local Government Revenue	Population	Inflation	GRDP
2015	15.402.647.674.502	37.566	0,39	1.331.376
2016	15.817.795.024.797	39.075	2,76	1.405.561
2017	17.311.350.632.320	39.293	4,04	1.482.148

2018	18.531.062.021.823	39.501	2,86	1.563.442
2019	19.327.125.485.406	39.699	2,12	1.649.896
2020	17.950.996.508.801	40.666	0,46	1.611.508
2021	18.935.883.965.351	40.879	0,69	1.669.117

Source: East Java Province in 2018 and 2021 Figures, data processed

This research uses Ordinary Least Square (OLS) and examines the effect of Population, gross regional domestic product, and inflation on original local government revenue (Ghozali, 2009). Mathematically the equation model in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where

Y = original local government revenue

α = constant

β_1-β_3 = regression coefficient

X_1 = Population

X_2 = GRDP

X_3 = Inflation

IV. Results and Discussion

The results of research data using Eviews version 10 produce the following output:

Table 3. Multiple Linear Regression Results

Dependent Variable: original local government re

Method: Least Squares

Sample: 2015 2021

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Population	-0.886832	0.462401	-1.917884	0.1510
GRDP	1.407047	0.124365	11.31390	0.0015
Inflation	0.017348	0.007268	2.386907	0.0970
C	19.81287	3.648269	5.430758	0.0123

R-squared	0.991809	Mean dependent var	30.49626
Adjusted R-squared	0.983618	S.D. dependent var	0.088100
S.E. of regression	0.011276	Akaike info criterion	-5.836718
Sum squared resid	0.000381	Schwarz criterion	-5.867627
Log-likelihood	24.42851	Hannan-Quinn criter.	-6.218741
F-statistic	121.0877	Durbin-Watson stat	2.681693
Prob(F-statistic)	0.001255		

Based on Table 3, the multiple linear regression equation models can be written as follows:

Original Local Government Revenue = -0.8868*Population + 1.4071*GRDP + 0.0174*Inflation + 19.8129

Based on the multiple linear regression equation models and Table 3, it can be discussed as follows:

4.1 The Influence of Population, GRDP, and Inflation on Original Local Government Revenue

Population, gross regional domestic product, and inflation simultaneously affect Original Local Government Revenue with a contribution of 98.36%. The remaining 1.64% is influenced by other variables that have not been studied, such as economic growth

4.2 The Influence of Population on Original Local Government Revenue

Population number has no significant negative effect on original local government revenue. Because districts/cities in the province of East Java have experienced a shift from agriculture to the industry has occurred since 2010; in the transition, several people cannot work in the industrial sector because of different skills, which must have specific skills to be able to work, changes in the economic structure have an impact on unemployment (Juliansyah & Sulkadria, 2018).

4.3 The Influence of GRDP on Original Local Government Revenue

GRDP has a positive effect on original local government revenue. Research conducted by Adriani & Handayani (2008) and Santosa et al. (2005) shows the same result where GRDP has a positive and significant effect on original local government revenue. increase in GRDP affects the increase in original local government revenue.

4.4 The Influence of Inflation on Original Local Government Revenue

Inflation has a significant positive effect on original local government revenue. An increase in inflation has an impact on increasing Regional Original Income. These because inflation emphasizes wage increases' effect on the money supply as the primary cause. There are two paths between the money supply and inflation due to excess money supply. High inflation significantly affects economic conditions, thus affecting people's purchasing power. Inflation can also affect the increase in local revenue, determined by turnover, hotel, and restaurant taxes (Mawarni, Darwanis, & Abdullah, 2013). When inflation is high, wages increase because real wages depend on the marginal productivity of labor and vice versa; when inflation decreases, business people tend to raise prices, making the value of real wages fall.

V. Conclusion

The Population has no significant negative effect on original local government revenue. It is hoped that the community will understand where the sources, The Population, and objectives of original local government revenue.

GRDP has a positive effect on original local government revenue. The East Java Provincial Government increases Regional Original Income by increasing GRDP through superior products of their respective regions or sectors. So that the implementation of regional autonomy that has the authority to regulate regional finances positively affects economic growth.

Inflation has a significant positive effect on original local government revenue. When the Inflation Rate rises, it will increase original local government revenue, whose units are based on turnover, hotel, and restaurant taxes. But apart from this, when the Inflation Rate is too high, it will cause people's real income to fall so that living standards fall. Therefore, the role of the Regional Inflation Control Team is needed so that the Inflation Rate becomes stable. When the Inflation Rate is steady, it will provide certainty for economic actors in making decisions in consumption, investment, and production that increase economic growth.

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