

The Effect of Regional Independence and Dependence on Financial Sustainability in Government in South Sumatra Province

Dwi Rika Khairunisa¹, Yulia Saftiana², Rela Sari³

^{1,2,3}Universitas Sriwijaya

Email : dwirikakhairunisa02@gmail.com, yuliasaftiana@fe.unsri.ac.id,
relasari@fe.unsri.ac.id

Abstract

This research is a research conducted with the aim of finding out how Regional Independence and Regional Dependence have an impact on Financial Sustainability. Goal Setting Theory emphasizes the importance of the relationship between goals and performance. This study is a quantitative research using a sample of 17 districts/cities based on data from the central E-PPID website of the Financial Audit Authority of the Republic of Indonesia, namely e-ppid.bpk.go.id. The results of this study show that regional independence and regional dependence have an effect on financial sustainability.

Keywords: Regional Independence, Regional Dependence, Financial Sustainability.

INTRODUCTION

Local governments facilitate the sustainable development process by assessing local conditions, identifying needs and resources, building partnerships with stakeholders, implementing policies, and prioritizing appropriate projects (Reddy, 2016; Satterthwaite, 2017). Empirically outlining the role of local governments in achieving sustainable social goals, including the SDGs, helps to understand the complex network of regional governance for sustainable development (Masuda et al., 2022). Regional independence is the ability of local governments to manage their own finances without relying too much

430

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on the support of the central government. The provision of services financed by regional revenues will increase regional sustainability, as regions do not only depend on debt or cash assistance from the central government.

Wardhani & Payamta (2020) One of the factors that can affect the financial sustainability of local governments is regional financial independence. Regional Financial Dependency is used to assess whether or not the local government's dependence on the central government is high (Andrews, 2015). In the context of Regional Dependence, local governments can set concrete goals to reduce dependence on central funds or external assistance.

RESEARCH METHODS

This research is a quantitative research based on the processing of secondary data obtained from the 2017-2020 Regional Government Financial Statements (LKPD) obtained from the website of the Financial Audit Agency. This study uses multiple regression analysis to determine the direction and influence of independent variables on dependent variables. This research was conducted on the South Sumatra Provincial Government consisting of 17 districts and cities, based on data obtained by accessing the central government's E-PPID portal page at the Financial Audit Board of the Republic of Indonesia, namely e-ppid.bpk.go.id.

Variable Operational Definition

Financial Sustainability

Financial sustainability is calculated based on adjusted revenue, which is the difference between operating income and operating expenses that have been deducted from extraordinary items (Bolivar et al., 2019; Wardhani & Payamta, 2020).

$$\text{Financial Sustainability} = \text{Operating Income} - \text{Operational Expenses} - \text{Awesome Post}$$

Regional Financial Independence

The level of regional independence is measured through the value of the original regional income with the total regional income (Mahmudi, 2019).



$$\text{Regional Independence} = \frac{\text{Regional Original Income}}{\text{Total Regional Revenue}} \times 100\%$$

Regional Financial Dependence

Regional financial efficiency is the ratio of total expenditure to total revenue (Mahmudi, 2019).

$$\text{Regional Dependence} = \frac{\text{Transfer Revenue}}{\text{Total Regional Revenue}}$$

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive analysis provides an explanation of the average value, maximum value, and minimum value of the research variable data, both independent variables, namely financial sustainability and dependent, namely Regional Independence and Regional Dependence. The data used in this study was obtained from the Audit Report on the Financial Statements of the City/Regency Regional Government in South Sumatra.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
X1	85	7.36	3.877661	2.35	31.6
X2	85	84.06635	11.58125	10.76	95.36
y	85	25.594	1.646241	20.9	27.52

Source: Data processed (Stata) 2024

1. Variable Y, namely Financial Sustainability of districts/cities in South Sumatra, has an average value of 25.594. The maximum value is 27.52 and the minimum value is 20.9 with a standard deviation of 1.646241.
2. Variable X1, namely the dependence of districts/cities in South Sumatra, has an average value of 7.36, a maximum value of 31.6, a minimum value of 2.35 with a standard deviation of 3.877661.



3. The X2 variable Regional Dependency of districts/cities in South Sumatra has an average value of 84.06635. The maximum value is 95.36, the minimum value is 10.76, with a standard deviation of 11.58125.

Classical Assumption Test

The classical assumption test was used to determine whether the results of the regression analysis of the panel data used to analyze in this study were free from the deviation of classical assumptions. This study uses a heteroscedasticity test and a multicollinearity test. According to Basuki & Prawoto, (2016), not all classical assumption tests should be performed on every linear regression model.

Multicollinearity Test

The multicollinearity test is a test that aims to observe whether there is or is not a high correlation between independent variables in the multiple linear regression model (Purnomo, 2019). This test is also useful to avoid the habit of drawing conclusions about the influence of the partial test of each independent variable on the dependent variable. If the value of the correlation coefficient between each independent variable is less than 0.70, then the model can be said to be free from multicollinearity. If it is more than 0.70, then, it can be assumed that there is a very strong correlation (relationship interaction) between independent variables so that multicollinearity occurs.

Table 2. Multicollinearity Test

Variable	VIF	1/VIF
X1	4.43	0.225793
X2	4.43	0.225793
Mean VIF	4.43	

Source: Data processed (Stata) 2024

From the table above, it can be seen that the regional independence variable with a value (VIF) of 4.43 and a tolerance > 0.225793, the regional dependency variable (X2) has a value (VIF) of 4.43 and a tolerance > 0.225793. Thus, it can be said that there is no correlation between independent variables and each other, or independent variables in this study are free of multicollinearity.



Heterokedasticity Test

Ghozali (2021) stated that the heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another. The heteroscedasticity test can be seen using the Glejser Test, which is regression of residual absolute values to independent variables. If the result is obtained a probability value of > 0.05 , then 54 does not have a heterokedasticity problem, and vice versa, if the probability value < 0.05 , then heterokedasticity occurs.

Tabel 3. Uji Heterokedastisitas

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity	
Assumption: Normal error terms	
Variable: Fitted values of y	
H0: Constant variance	
chi2(1) =	0.85
Prob > chi2 =	0.3560

Source: Data processed (Stata) 2024

This test compares significantly if the result is > 0.05 or 5%, then it is concluded that the regression model does not contain heteroscedasticity. From the results of the test in this study, it is known that the sig level is $0.3560 > 0.05$, so it can be concluded that this study has no symptoms of heterokedasticity.

Hypothesis Test**Table 4. Multiple Regression Results**

y	Coefficient	std. err.	z	P> z	[95% conf. interval]	
x1	.1102893	.0241623	4.56	0.000	.0629321	.1576464
x2	-.0157409	.0055377	-2.84	0.004	-.0265946	-.0048871
_cons	26.10555	.6613429	39.47	0.000	24.80934	27.40176
sigma_u	1.1523235					
sigma_e	1.0635792					
rho	.53998469	(fraction of variance due to u_i)				

Source: Data processed (Stata) 2024



From the table, the regression equation of the panel data can be compiled as follows.

$$Y = 26,10555 + 0,1102893 X1 - 0,0157409 X2$$

Information:

- Y : Financial Sustainability
 X1 : Regional Financial Independence
 X2 : Regional Financial Dependence

The regression equation is interpreted as follows:

1. The value of the regression constant is 26.10555, this shows that if the variables of Regional Financial Independence and Regional Financial Efficiency are 0, then the magnitude of financial sustainability is 26.10555.
2. The regression coefficient of the Regional Independence variable is 0.1102893 with a positive value, this shows that every increase in Regional Independence by 1 unit, it will increase financial sustainability by 0.1102893 units assuming that the value of other independent variables is constant.
3. The regression coefficient of the Regional Financial Dependency variable is - 0.0157409, this shows that every increase in Regional Financial Dependency by 1 unit, will increase financial sustainability by -0.0157409 units, assuming that the value of other independent variables is constant.

DISCUSSION

Based on the test, the results of hypothesis 1 where regional financial independence was obtained a t-calculated value of 4.56 > a t-table value of 1.98932 with a level of Sig. 0.000 < a 0.05 which means that it has a positive and significant effect on financial sustainability in district/city governments in South Sumatra Province. The results of this study indicate that local governments that have high local income can provide a sustainable level of service. This is in line with research conducted by Tri Wardhani & Payamta, (2020), (Lhutfi & Sugiharti, 2022) and Brusca et al., (2015) which stated that regional financial independence has a positive effect on financial sustainability.

Based on the tests carried out, the results of hypothesis 2 obtained a t-count value of -2.84 > a t-table value of 1.98932 with a level of Sig. 0.004 < a 0.05 which means that it has a negative and significant effect on financial sustainability. This explains that the

435



dependence of regional finances on transfers from the central government or other external sources can contribute to improving regional financial sustainability. The higher this ratio, the greater the level of dependence of local governments on the central/provincial government (Mahmudi, 2019). Transfers from the center are often accompanied by capacity building and infrastructure development programs. This not only helps the region in the short term, but also builds a strong foundation for long-term economic growth, improving financial sustainability.

CONCLUSION

Based on the analysis conducted on the impact of regional independence and regional dependence on fiscal sustainability, the variable "regional fiscal independence" shows that local governments with high regional inherent income can be concluded that this indicates that the company provides a level of service. Sustainability shows that the reliance of regional finances on transfers from the central government or other external sources helps improve regional financial sustainability.

Although this research was carried out according to the established scientific research procedures, this research only discusses local government, because this research is not limited to only being carried out in the regency/city area in South Sumatra. Because this study only uses two independent variables, namely regional independence and regional dependence, there are other factors that can be used in future research.

Based on the limitations of the existing research, the researcher gave several suggestions so that in the future to get better results, namely the next research can expand the scope of research not only to districts/cities in South Sumatra Province but also to expand the area. Researchers can then add or replace other variables that researchers did not discuss in this study in order to find out other factors that can affect financial sustainability.

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436



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