Influence of Income and Balanced Funds on Financial Autonomy with Assets Management of Regional Government in Indonesia

by Salehoddin

INFLUENCE OF INCOME AND BALANCED FUNDS ON FINANCIAL AUTONOMY WITH ASSETS MANAGEMENT OF REGIONAL GOVERNMENT IN INDONESIA

Abstract This research was conducted to determine the impact on regional revenues with balance funds to financial independence as measured through asset management as variable moderators in city government in Indonesia. Using the theory of analysis, the path is expected to estimate the value of regional revenues and balanced funds in influencing the financial independence of a region. Measurement is done with the measurement scale of respondents using ordinal data. Furthermore, it is measured using direct and indirect variables with asset management variables as a moderator. The main finding in this study is that there is no sign of regional revenues to asset management and the management of regional financial independence. Several factors have been described, one of which is that local income from taxes tends to get negative results because there is no direct reward to the people in the area. This study also resulted in the impact of findings that the equalization that occurs with the existence of financial independence managed by local governments becomes very focused and achieves targets to public sectors such as education, health, and infrastructure. This study hypothesizes that regional income has no significant effect on asset management and financial independence. In contrast, balance funds significantly affect asset management, and the management of assets impacts financial autonomy.

Keywords: Regional income, Balance funds, Asset Management, Financial Autonomy.

Jel Classification: G34, H11, M4

1. Introduction

The implementation of regional autonomy gave birth to fiscal decentralization with independent local government planning and regional financial management. Regional autonomy is how the central government provides independence for its regions in finance (Tanjung et al., 2021). With its fiscal autonomy, the government can do the creativity of public services by developing adequate infrastructure facilities that become the community's needs in each region. In the implementation of regional autonomy, each part is allowed to explore the sources of regional income. The provincial revenues collected do not incur high costs and do not impede the mobility of the population, traffic of goods/services between regions, and export/import activities. The latest literature explains that the convergence of regional incomes is getting a lot of attention from policymakers by following economic relations and globalization (Yaya et al., 2020).

Regional revenue management is a local government strategy to conduct asset management in terms of allocation and realization. In terms of asset management, the local government can allocate capital expenditures to produce quality and optimal assets in providing services to the community. An example of (Fang, 2020) is that the statistic GDP of regional economic income will be obtained from the level of per capita income of the region. (Hlobil &van Leuvensteijn, 2020) Explained that asset management will run well if followed by investment advice as a basis in determining future decisions. Asset management objectives in the future are directed to ensure the sustainable capacity development of local government. It is required to develop or optimize the utilization of regional assets to increase provincial revenues, which will be used to finance activities to achieve optimal fulfillment of requirements for the service of duties and functions of its agencies to the community. In addition to regional revenues and balancing funds, financing receipts are also important to asset management and regional financial independence. Balance funds are used as strategic management efforts (Supervisors) from the bottom and out to see the impact of each managerial attempt as part of regional financial independence (Kim &Ryu, 2017). Balance fund is one of the variable short-term economic conditions

and becomes the most frequently cited factor for financing analysis (Bruck &Miltenberger, 2013). The implementation of development requires a very large source of financing, especially for investments whose sources of funding are sourced from the community. So it requires a very detailed financing analysis. Pamekasan district government which is part of the autonomous region in financing the operation of its government to build in all its affairs both in the function of mandatory affairs and affairs financed by regional revenues and balance funds, namely the general allocation fund of special allocation funds and revenue sharing funds and differences in the calculation of the previous year's budget. The funds are allocated and the level of realization from 2016 to 2019 to have a significant effect on regional financial independence in Pamekasan Regency requires asset management based on functional principles, legal certainty, transparency, openness efficiency, and accountability and value assurance.
Based on the description above, the researchers are interested in conducting a study by including several variables as part of the novelty. The novelty is 1). The need for asset management for local governments as intervening variables that mediate the influence of regional revenues, balanced funds, and regional financing receipts to regional financial autonomy; 2). Adding capital expenditure as moderating variables that moderate the impact of restricted income, balanced funds, and provincial financing receipts to regional financial autonomy; 3)—making capital expenditure as a moderating variable that mediates the influence of regional asset management on financial independence. Novelty above later researchers can find out the impact of regional income, balance funds, financing receipts to regional financial autonomy with regional asset management as intervening variables and capital expenditure as moderating variables in pamekasan district government.

Problem Formulation:

1. Does local revenue affect the management of regional assets in the district government?
2. Does local income affect the financial independence of the regional district government?
3. Does the balance fund affect the management of local assets in district government?
4. Does the balance fund affect the financial independence of the district government?
5. Does regional asset management affect the financial independence of the regional district government?
6. Does regional revenue affect regional financial independence through regional asset management in district government?
7. Does the balance fund affect the independence of the regional finance through the management of regional assets in the district government?

2. Literature Review

2.1 Regional revenue and asset management

The force of law relating to regional income is strongly related to political and ethnic tensions, thus becoming a threat to social inequality (Kanbur &Zhang, 2005). And what is worse is, income inequality and inequality in the region tend to occur in developing countries tend to persist or worsen (Breau, 2015). Therefore, selective management of central and local governments is required to widen the gap. From the assumption of irrelevant perfect competition, it is often explained that income inequality occurs in many developing countries (Wei et al., 2015). Each region has different levels of urbanization and climate change and is vulnerable to hazards. An effective and efficient asset management process will significantly help improve regional planning and development (Kull et al., 2016). Explained in Government Regulation No. 27 of 2014 concerning Management of State/Regional Property must be implemented based on functional principles, legal certainty, transparency, efficiency, accountability, and value assurance. These management principles should be used as guidelines in asset management, starting from the planning stage to the development, supervision, and control stages. The locations in the direction of State/Regional Property include:

a) Planning needs and budgeting;
b) Procurement;

c) Usage;
d) Utilization;
e) Security and Maintenance;
f) Assessment;
g) Peemindahtanganan;
h) Extermination;
i) Deletion;
j) Administration; and
k) Coaching, supervision, and control

Asset management is the Management of State/Regional Property that is carried out based on functional principles, legal certainty, transparency, efficiency, accountability, and value certainty with the basic principles of regional asset management covering three main things, namely (1) Planning and Procurement; (2) Implementation, and (3) Supervision and Control.

Balance Fund and Financial Independence

Various indications from the findings (van Eeghen, 2021), among others, that financing for local needs will not add anything to the total balance sheet of the financial sector, and currency elasticity will greatly increase the scope of balance sheet expansion. Based on another theory of, balance funds in Indonesia have similar meanings with transfer income. One part of the transfer fund grants. Grants are a major source of income for local governments in many countries. The provision of this aid has three main reasons: increasing the regional revenue source, meeting the excessive needs of limited income from a particular region, and improving specific programs by giving control over them. There are several assumptions. One of them is from (Scutariu &Scutariu, 2015) state that the problem of financial independence of the public sector can not be explained by only looking at one theory but must be based on some experts and experts with some literature. In view (Petkovska, 2011), financial independence should focus on the Ability of Institutions to manage and channel their finances independently, without being influenced by outside parties. The Ratio of Regional Financial Independence describes the region's dependence on transfer revenues provided in the form of Revenue Sharing Fund, General Allocation Fund, Special Allocation Fund. The higher the ratio of regional financial independence, the lower the dependence on central government assistance.

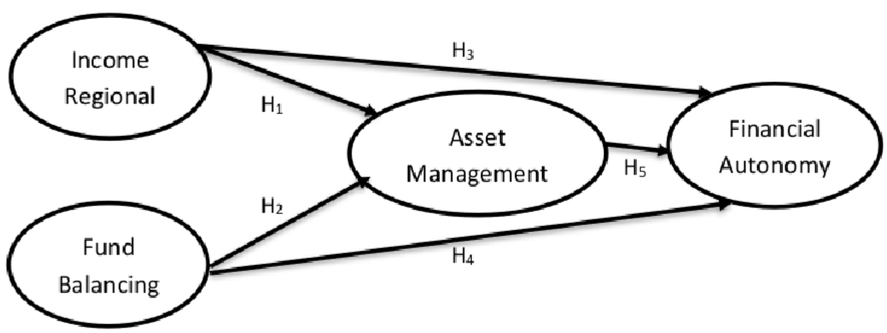

Figure 1. Conceptual Framework

3. Method

They were planning this research using quantitative analysis with a causal explanatory paradigm (Rahman &Saima, 2018). This study explains the variable relationship between variables and hypothesis testing that has been formulated before and aims to present various research events and phenomena. The region government conducted the research location with the main data source, namely Pamekasan District Finance Agency as The Regional Financial Management Officer and the Regional

Financial Management Task Force receiving the State Budget Balance Fund consolidated entities, namely the entire regional Perangkat WorkUnit. Based on the provisions of the selection of sample samples above, then each Regional Device Work Unit sample consists of 3 officials, plus one regional financial management officials so that the total for 42 Regional Device Work Units is as many as 99 people, plus one regional financial management officer, namely the Regional General Treasurer. So the total sample is taken, 100 people. The data analysis in this study was conducted using the *Structural Equation Model* method based on partial least square. The software used for structural analysis is smartPLS (Nugroho et al., 2021).

1. It uses a reflective measurement model that connects all manifest variables with latent variables. In this case, the indicator can only be associated with one variable.
2. The type of data used does not have to follow the assumption of normality.
3. Use non-metric ratio scales (ordinal and nominal)
4. The purpose of using PLS-SEM is to predict the value of endogenous variables and further the development of theory.
5. Use a relationship model with a path chart

Table 1. PLS-SEM Model Measurement

Criteria	description
Composite Reliability	Internal consistency measurement ≥ 0.6
Indicator Reliability	Loading absolute default outside with a value of ≥ 0.7
AVE	Average variant extract with a value of ≥ 0.5, used for determining the validity of convergents

4. Result

Validity testing using the outer PLS model shows two indicators of financial independence should be discarded because they have values below 0.6 and negative. So a second test was conducted to get the perfect validity test result.

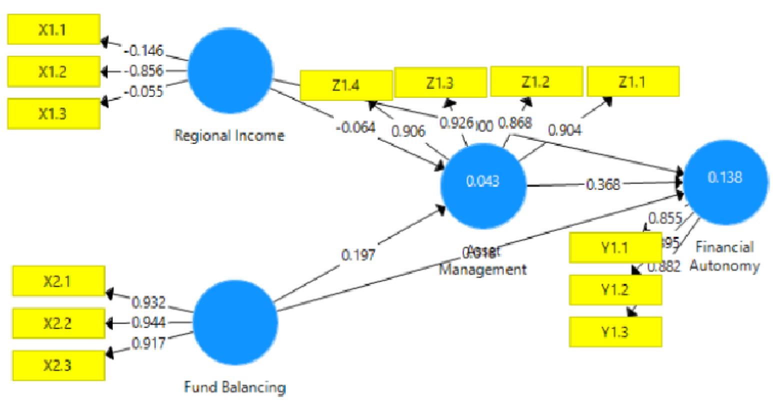

Figure 2. Outer Loading Model 1

The reliability and validity of constructs can assess whether or not latent variables are further studied in this study.

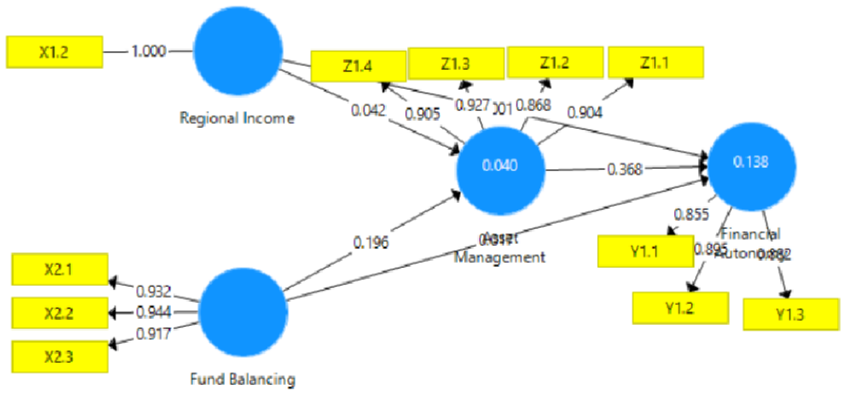

Figure 3. Outer Loading Model 2

Variable latent regional income (X1) has a value of Cronbach's alpha of 1 with a value of rho_A of 1, while composite reliability is 0.945 and greater than 0.6. It is stated that this variable is valid and reliable for further review.

Variable latent fund balancing (X2) has a value of Cronbach's alpha of 0.923 with a rho_A value of 0.925, while composite reliability is 0.951 and greater than 0.6. It is stated that this variable is valid and reliable for further review.

Variable latent asset management (Z) has a Cronbach's alpha value of 0.923 with a rho_A value of 0.936, while composite reliability is 0.945 and greater than 0.6. It is stated that this variable is valid and reliable for further review.

Variable latent financial autonomy (Y) has a value of Cronbach's alpha of 0.851 with a rho_A value of 0.858, while composite reliability of 0.909 and is more significant than 0.6. It is stated that this variable is valid and reliable for further review.

Table 2. Contruct Reliability and Validity

Variable	Cronbach's Alpha	rho_A	Composite Reliability
Regional Income	1	1	0,954
Fund Balancing	0,923	0,925	0,951
Asset Management	0,923	0,936	0,945
Financial Autonomy	0,851	0,858	0,909

Testing of T-Statistical and P-Values values for coefficients of path

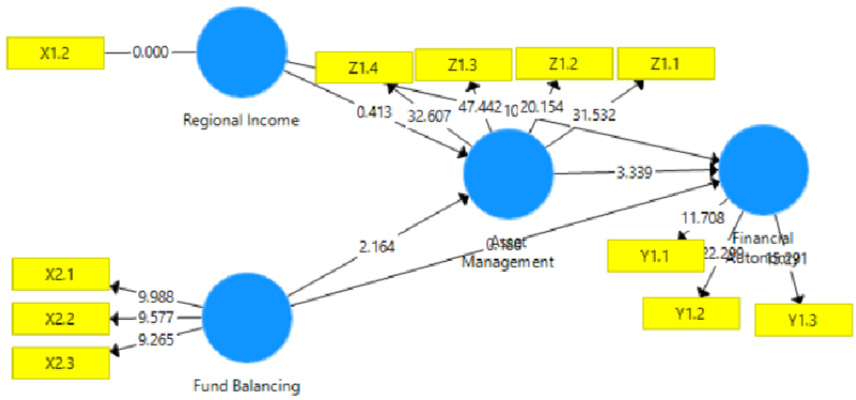

Figure 4. Bootstrapping Running

From figure 4 conducted bootstrapping running obtained the results of analysis of hypothesis testing direct influence;

1. Regional income negatively and insignificantly affects asset management with an original sample value of 0.042. This indicates that the higher the regional income, the lower the asset management. Then the coefficient of T-statistic test results showed a significant level of 0.413 smaller than T-Table with 100 respondents was 1,660 and supported by P-values > of 0.05, which is 0.680.
2. Fund balancing has a positive and significant effect on asset management with an original sample value of 0.196. This indicates that the higher income, the higher the asset management rate. Then the coefficient of T-statistic test results showed a significance level of 2,164 greater than T-Table with 100 respondents was 1,660 and supported by P-values < from 0.05, which is 0.031.
3. Regional income negatively and insignificantly affects financial autonomy with an original sample value of 0.001. This indicates that the higher the income of the economic autonomy is decreasing. Then the coefficient of T-statistic test results showed a significant level of 0.010 smaller than T-Table with 100 respondents being 1,660 and supported by P-values > of 0.05 i.e.0.992.
4. Fund balancing negatively and insignificantly affects financial autonomy with an original sample value of 0.017. This indicates that the higher the fund balancing the financial autonomy, the lower. Then the coefficient of T-statistic test results showed a significant level of 0.180 smaller than T-Table with 100 respondents being 1,660 and supported by P-values > of 0.05, which is 0.857.
5. Asset management has a positive and significant effect on asset management with the original sample value of0.368. This indicates that the higher the regional income, the higher the asset management will be. Then the coefficient of T-statistic test results showed a significance level of 3,339 greater than T-Table with 100 respondents was 1,660 and supported by P-values < from 0.05, i.e., 0.001.

Table 4. Path Coefficients

	Original Sample	T-Statistic	P-Values
Regional income ➔ Asset management	0,042	0,413	0,680
Fund balancing ➔ Asset management	0,196	2,164	0,031
Regional income ➔ Financial autonomy	0,001	0,010	0,992
Fund balancing ➔ Financial autonomy	0,017	0,180	0,857
Asset management➔ Financial autonomy	0,368	3,339	0,001

5. Discussion

The research conducted by calculating the value of statistics with the analysis of the path that occurred is the amount of regional income does not show significance to asset management. This could be due to the need for local governments to prepare planning needs for assets or restricted property to be used. Planning for untapped assets should be considered kodisi assets past, present, and future. A very detailed calculation needs to be done to consider the cost of procurement of goods and services to avoid unplanned cost increases. Fun balancing shows positive and significant value in influencing asset management—equalization of allocations to finance spending needs in the framework of decentralization implementation (NUGROHO et al., 2020).

Furthermore, getting a large balancing fund from the central government is very helpful to local governments in balancing the spending conditions of projects and meeting other regional needs. Large balance funds can help capital expenditures and boost regional economic growth. In addition, balance funds are also used to counter the gap in public services such as education, health, infrastructure, marine, fisheries, agriculture, and the environment. Asset management also has a big impact on regional financial independence because it can contribute funding to regional expenditures and capital expenditures such as development and improvement in various sectors. Local governments ultimately can self-finance government activities, development, and community services that have paid taxes and levies.

6. Conclusion

1. Regional income has an insignificant influence on asset management. This is known by looking at one of the indicators that shows the lowest value of the statistic test results: the regional government conducts intensification and extension to increase the acquisition of local *taxes*. This received a negative response from respondents resulting in a low score in statistic testing.
2. Fund balancing has a significant influence on asset management. It is based on many indicators that show high value or good responses to indicator variables. One of them is cost allocation focused on public sectors such as education, infrastructure, and others.
3. Regional income has an insignificant impact on financial autonomy. This is due to the imposition of local taxes imposed on individuals or entities without direct reward. Thus, further study needs to be further studied so that local revenues from the tax sector can provide immediate benefits to the community.

4. Fund balancing also does not provide significant results for financial autonomy. This is also due to the diversification or equalization of development that occurs in each region. Thus causing certain points of the region can not enjoy the results of regional financial management as a tool to prosper the community.
5. Asset management has a positive and significant impact on financial autonomy. One of them is the contribution of regional income that is well managed and used as capital expenditure to improve the economy of the people in a region.

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