The Influence of Regional Original Revenue and Central Government Transfers on the Financial Independence of Regencies/Municipalities in North Sumatra Province

Ilham Rizki Adi Pohan, Agus Tripyono, Renny Maisyarah

Abstract

This study aims to analyze the effect of Local Own-Source Revenue (PAD) and central government transfers on regional financial independence in regencies/cities in North Sumatra Province. This study employed a causal associative research design using secondary data. The population consisted of all regencies/cities in North Sumatra Province, with a sample of 28 regencies/cities selected using purposive sampling. Data were analyzed using multiple linear regression, including classical assumption tests, the simultaneous F-test, the partial t-test, and the coefficient of determination. The results indicate that Local Own-Source Revenue and central government transfers simultaneously have a significant effect on regional financial independence. Partially, both Local Own-Source Revenue and central government transfers also have a significant effect on regional financial independence.

***Keywords**: Local Own-Source Revenue, Central Government Transfers, Regional Financial Independence*

Ilham Rizki Adi Pohan[1]
[1] Master of Accounting, Universitas Pembangunan Panca Budi, Indonesia
e-mail: rizkypohan12@gmail.com[1]

Agus Tripyono[2], Renny Maisyarah [3]
[2,3] Master of Accounting, Universitas Pembangunan Panca Budi, Indonesia
e-mail: agustripyono@dosen.pancabudi.ac.id[2], rennymaisyarah@dosen.pancabudi.ac.id[3]

Introduction

The reform era has brought significant changes to public administration in Indonesia, particularly through the implementation of regional autonomy. This policy grants local governments greater authority to manage governmental affairs and address the needs of their communities in accordance with applicable regulations [1]. Decentralization is expected to improve government efficiency, effectiveness, accountability, and public service quality by enabling local governments to formulate policies based on regional needs and potential [2]. Nevertheless, the success of regional autonomy is closely associated with the ability of local governments to finance governmental functions and development programs independently.

Regional financial independence represents the capacity of a local government to finance its activities by utilizing revenues generated within the region. One of the primary indicators of such independence is Local Own-Source Revenue (PAD). A higher proportion of PAD in total regional revenue generally indicates a lower dependence on financial support from the central government [3]. Conversely, the dominance of central government transfers indicates that local fiscal capacity remains limited and that regional governments have not fully optimized their own revenue-generating potential.

This issue remains relevant among regencies and municipalities in North Sumatra Province. Data from the Directorate General of Fiscal Balance indicate that regional revenues continue to rely substantially on transfers from the central government, while the contribution of PAD remains relatively limited [4]. The regional financial independence ratio increased from 5.37% in 2011 to 5.83% in 2012 and 6.27% in 2013. Although this trend indicates gradual improvement, the ratio remained within the instructive relationship category (0–25%), suggesting a high level of fiscal dependence on the central government. This condition implies that an increase in PAD in nominal terms does not necessarily translate into a substantial improvement in regional financial independence.

Previous studies have examined various factors associated with regional financial independence but have produced inconsistent findings. Lugina reported that PAD affected regional financial independence, whereas central government transfers and investment had no significant effect [5]. Marizka found that PAD had a positive and significant effect, while the Special Allocation Fund (DAK) had a negative and significant effect; meanwhile, the Revenue Sharing Fund (DBH) and General Allocation Fund (DAU) were not significant [6]. In contrast, Siagian found that PAD and DBH had no partial effect, whereas DAU and DAK significantly affected regional financial independence [7]. These inconsistencies indicate a research gap that warrants further empirical investigation.

The novelty of this study lies in examining the effects of PAD and central government transfers on regional financial independence, with a specific focus on regencies and municipalities in North Sumatra Province. The study is limited to PAD and central government transfers as independent variables and regional financial independence as the dependent variable. This scope enables the study to provide empirical evidence concerning the relationship between regional revenue capacity, fiscal transfers, and the ability of local governments to finance their activities independently.

Based on these conditions, this study aims to analyze and empirically examine the effects of PAD and central government transfers on the financial independence of regencies and municipalities in North Sumatra Province. The findings are expected to contribute to the literature on regional public finance and provide practical considerations for local governments in strengthening fiscal capacity and reducing dependence on central government funding.

Research Methodology

2.1. Basic Conceptual Framework

This study employs a quantitative approach with a causal associative research design to examine the effect of Regional Original Revenue (ROR) and Central Government Transfers (CGT) on Regional Financial Independence (RFI) in regencies and municipalities in North Sumatra Province. Regional Financial Independence reflects the ability of local governments to finance governmental activities, development, and public services through their own locally generated revenues. An increase in Regional Original Revenue is expected to strengthen regional fiscal capacity and reduce dependence on external sources of funding. Meanwhile, Central Government Transfers are provided to support regional fiscal capacity and public service provision; however, a high dependence on such transfers may indicate limited regional capacity to generate revenue independently. Therefore, this study positions Regional Original Revenue (X1) and Central Government Transfers (X2) as independent variables and Regional Financial Independence (Y) as the dependent variable. The relationship between these variables is examined both partially and simultaneously using multiple linear regression analysis.

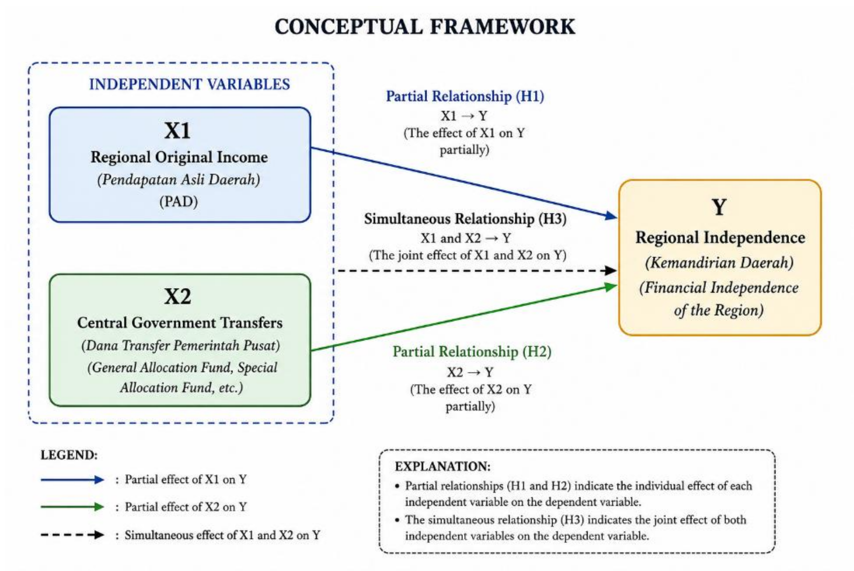

Figure 1.1 Conceptual Framework

The conceptual framework indicates that Regional Original Revenue and Central Government Transfers are expected to influence Regional Financial Independence. Regional Original Revenue is expected to have an important role in increasing fiscal independence, while Central Government Transfers may affect the level of dependence of local governments on central government funding. These relationships form the basis for the formulation and testing of the research hypotheses.

2.2. Research Stages

The research stages begin with problem identification and a review of relevant theories and previous empirical studies to establish the research foundation, conceptual framework, and hypotheses. The population consists of 33 regencies and municipalities in North Sumatra Province, while the sample is determined using non-probability sampling with a purposive sampling technique. Based on predetermined criteria, 28 local governments are selected as the research sample. The criteria include the availability of financial data published by the Directorate General of Fiscal Balance (DJPK), the Central Statistics Agency (BPS), and the Audit Board of the Republic of Indonesia (BPK RI), the availability of audited Local Government Financial Statements (LKPD) and Budget Realization Reports (LRA), and the completeness of financial data required for measuring the research variables.

The study uses secondary data in the form of financial reports and official statistical publications. The data are structured as pooled data, combining time-series and cross-sectional observations. Data collection is conducted through documentation by collecting, recording, classifying, and processing data related to Regional Original Revenue, Central Government Transfers, Regional Expenditure, and Regional Financial Independence. The operational definitions and measurements of the variables are presented in Table 1.

Table 1.1 Operational Definitions and Measurement of Research Variables

Variabel	Definition	Measurement	Scale
Regional Financial Independence (Y)	The ability of a local government to finance governmental activities and public services using its own regional revenues.	Regional Original Revenue / Total Regional Revenue × 100%	Ratio
Regional Original Revenue (X1)	Revenue generated by local governments from regional taxes, user charges, profits from regionally owned enterprises, and other legitimate local revenues.	Total realized Regional Original Revenue (IDR)	Ratio
Central Government Transfers (X2)	Funds transferred by the central government to local governments to support regional fiscal capacity and public services.	Total realized Central Government Transfers (IDR)	Ratio

After the data are collected and operationalized, the analysis is conducted using descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis. Descriptive statistics are used to describe the characteristics of each research variable, while classical assumption tests consist of normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Multiple linear regression is then used to determine the effects of Regional Original Revenue and Central Government Transfers on Regional Financial Independence. The regression model is expressed as $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$, where Y represents Regional Financial Independence, α represents the constant, β_1 and β_2 represent regression coefficients, X_1 represents Regional Original Revenue, X_2 represents Central Government Transfers, and ε represents the error term. Hypothesis testing uses the t-test to examine partial effects and the F-test to examine simultaneous effects, while the coefficient of determination (R^2) is used to determine the extent to which the independent variables explain variations in Regional Financial Independence.Employee performance indicators according to (Yuliana, 2019) are as follows:

1. Quality of work results
2. Quantity of work results
3. Timeliness of task completion
4. Work initiatives
5. Collaboration skills
6. Responsibility for work

Results

This section presents the empirical findings of the study in a structured manner. The results are organized into four parts: descriptive statistical analysis, classical assumption testing, regression analysis, and hypothesis testing. Each part is explained in detail to provide a comprehensive understanding of the relationship between **Local Own-Source Revenue (PAD)**, **Central Government Transfers (TPP)**, and **Regional Financial Independence (KKD)**.

3.1 Descriptive Statistical Analysis

Descriptive statistics were employed to provide an overview of the data distribution for each variable. The analysis includes minimum, maximum, mean, and standard deviation values.

Table 1.2 Descriptive Statistics of PAD, TPP, and KKD

Variable	Minimum	Maximum	Mean	Std. Deviation
PAD	0.0635	13.8425	0.954	2.327
TPP	0.2330	1.3935	0.537	0.264
KKD	0.0703	0.7839	0.1998	0.116

Interpretation**:**

a. PAD exhibits a wide range, with a very low minimum and a high maximum, indicating significant disparities among districts in their ability to generate local revenue.
b. TPP shows a narrower distribution, reflecting the relatively stable nature of central government transfers.
c. KKD averages at 0.1998, suggesting that most districts remain at a low level of financial independence.

This descriptive overview highlights the structural imbalance between locally generated revenue and reliance on central transfers.

3.2 Classical Assumption Testing

To ensure the validity of the regression model, classical assumption tests were conducted.

Table 1.3 Classical Assumption Tests

Test	Result	Interpretation
Normality	Asymp. Sig. = 0.750 > 0.05	Residuals are normally distributed
Multicollinearity	VIF PAD = 2.431; VIF TPP = 2.729 (<10)	No multicollinearity detected
Autocorrelation	Durbin-Watson = 1.655 (between 1–3)	No autocorrelation present

Heteroskedasticity	Sig. > 0.05	Homoscedastic residuals

Interpretation:

The results confirm that the regression model satisfies all classical assumptions. The residuals are normally distributed, the independent variables are not highly correlated, and the residual variance is consistent. This validates the robustness of the regression analysis.

3.3 Regression Analysis

The regression analysis was conducted to examine the effect of PAD and TPP on KKD.

Table 1.4 Regression Analysis of PAD and TPP on KKD

Variable	Coefficient	Interpretation
Constant (a)	0.074	KKD remains at 0.074 when PAD and TPP are zero
PAD (X1)	0.028	A one-unit increase in PAD raises KKD by 0.028
TPP (X2)	0176	A one-unit increase in TPP raises KKD by 0.176

Regression Equation:

***KKD* = 0.074 + 0.028(PAD) + 0.176(TPP) + e**

Interpretation:

Both PAD and TPP exert positive effects on KKD. However, the coefficient of TPP is substantially larger than that of PAD, indicating that central government transfers currently play a more dominant role in shaping regional financial independence.

3.4 Hypothesis Testing

Hypothesis testing was performed using the coefficient of determination (R^2), F-test, and t-test.

Table 1.5 Hypothesis Testing Results

Test	Result	Interpretation
Coefficient of Determination (R^2)	0.830	83% of KKD variation explained by PAD and TPP
F-Test (Simultaneous)	Sig. = 0.000 < 0.05; F = 136.398 > Ftabel 2.718	PAD and TPP jointly influence KKD significantly
t-Test (Partial)	PAD: t = 7.820 > 1.99 → significant; TPP: t = 5.377 > 1.99 → significant	Both PAD and TPP individually affect KKD significantly

Interpretation:

a. The high R^2 value demonstrates that PAD and TPP together account for most of the variation in KKD.
b. The F-test confirms that the combined influence of PAD and TPP is statistically significant.

The t-test results show that both variables independently contribute to KKD, reinforcing the importance of local revenue generation and central transfers.

Conclusion

The findings of this study provide a clear academic contribution to the discourse on regional fiscal autonomy. The analysis demonstrates that both Local Own-Source Revenue (PAD) and Central Government Transfers (TPP) exert significant and positive influences on Regional Financial Independence (KKD). PAD reflects the capacity of local governments to mobilize internal resources, and its positive effect underscores the importance of strengthening local taxation systems, improving administrative efficiency, and diversifying revenue bases. Meanwhile, TPP continues to play a pivotal role in sustaining regional finances, particularly for districts with limited fiscal capacity. The regression results reveal that TPP has a stronger coefficient than PAD, indicating that dependence on central transfers remains substantial. Collectively, PAD and TPP explain 83% of the variation in KKD, confirming their dominant role in shaping fiscal independence.

From a policy perspective, these findings imply that while central transfers are indispensable for equity and stability, long-term fiscal resilience requires a stronger emphasis on enhancing PAD. Local governments must adopt strategies that balance reliance on transfers with efforts to expand their own revenue sources. This dual approach will not only reduce dependency but also foster genuine financial autonomy. In conclusion, the study highlights the need for integrated fiscal policies that simultaneously empower local revenue generation and optimize the allocation of central transfers, thereby advancing sustainable regional financial independence.

References

[1] Abimanyu, Harianto, Adi. (2021). *Hubungan Antara Pertumbuhan Ekonomi, Belanja Pembangunan, dan PAD di Kabupaten/Kota Jawa-Bali*. Prosiding Simposium Nasional Akuntansi, Padang.

[2] Batubara, Dian. (2021). *Pendapatan Asli Daerah dan Kinerja Keuangan Pemerintah Kabupaten/Kota di Sumatera Utara*. Jurnal Akuntansi Universitas Sumatera Utara.

[3] Darise, N. (2022). *Pengelolaan Keuangan Daerah Edisi Revisi*. Jakarta: Penerbit Indeks.

[4] Erlina. (2021). *Metodologi Penelitian Akuntansi dan Keuangan*. Medan: Usu Press.

[5] Ghozali, Imam. (2022). *Aplikasi Analisis Multivariate dengan Program SPSS*. Semarang: Badan Penerbit Universitas Diponegoro.

[6] Gujarati, Damodar N. (2021). *Basic Econometrics, Updated Edition*. New York: McGraw-Hill.

[7] Halim, Abdul. (2021). *Akuntansi Keuangan Daerah dan Otonomi Fiskal*. Jakarta: Salemba Empat.

[8] Hastuti, Indhi. (2021). *Analisis Flypaper Effect Dana Alokasi Umum dan PAD*. Jurnal Akuntansi Publik, Vol. 10 No. 2.

[9] Julitawati, Ebit, Darwanis, Jalaludin. (2022). *PAD dan Dana Perimbangan terhadap Kinerja Keuangan Pemerintah Daerah di Aceh*. Jurnal Akuntansi Pascasarjana Universitas Syiah Kuala.

[10] Kaho, Josef Riwe. (2021). *Prospek Otonomi Daerah di Indonesia*. Jakarta: Raja Grafindo Persada.

[11] Mahsun, Mohamad. (2021). *Pengukuran Kinerja Sektor Publik*. Yogyakarta: BPFE.

[12] Mardiasmo. (2021). *Otonomi Daerah dan Manajemen Keuangan Daerah*. Yogyakarta: Andi Offset.

[13] Maysarah, Renny. (2023). *Pengaruh Pendapatan Asli Daerah terhadap Kinerja Keuangan Pemerintah Daerah di Sumatera Utara*. Universitas Pembangunan Panca Budi, Medan.
[14] Saragih, Juli Panglima. (2022). *Desentralisasi Fiskal dan Keuangan Daerah dalam Otonomi*. Jakarta: Ghalia Indonesia.
[15] Sugiyono. (2021). *Metode Penelitian Bisnis*. Bandung: Alfabeta.
[16] Sujarweni, V. Wiratna. (2022). *Metodologi Penelitian Kuantitatif*. Yogyakarta: Pustaka Baru Press.
[17] Tripyono, Agus. (2022). *Analisis Kemandirian Fiskal Daerah dalam Perspektif Otonomi*. Universitas Pembangunan Panca Budi, Medan.
[18] Umar, Husein. (2021). *Metode Riset Akuntansi Terapan*. Jakarta: Ghalia Indonesia.
[19] Zega, R. (2022). *PAD, DAU, DBH, SiLPA dan Luas Wilayah terhadap Belanja Modal*. Jurnal Ekonomi Daerah, Vol. 5 No. 1.