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LOCAL OWN-SOURCE REVENUE AND ITS DETERMINANTS

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Abstract: The purpose of this research is to obtain empirical evidence about the effect of Total Population, Domestic Investment, and Gross Regional Domestic Product towards Local Own-source Revenue. The object of this research are districts and cities in the province of Banten in 2016-2020. Sample of this research were selected using census method and testing was performed using multiple linear regression method. The observation of this research are 8 Districts and cities in the province of Banten namely Pandeglang District, Lebak District, Tangerang District, Serang District, Tangerang City, Cilegon City, Serang City, and South Tangerang City. The result of this research are Total Population, Domestic Investment, and Gross Regional Domestic Product simultaneously have significant effect toward Local Own-source Revenue. Partially, Total Population and Gross Regional Domestic Product has a significant effect towards Local Own-source Revenue, while Domestic Investment does not have a positive effect toward Local Own-source Revenue.

Keywords: *Domestic Investment, Gross Regional Domestic Product, Local Own-source Revenue, Total Population.*

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1. Introduction

Regional economic development is a series of activities carried out by the regional government together with the community in managing and utilizing resources and forming a pattern of partnership between the regional government and the private sector to create new jobs and stimulate the development of economic growth in the region. With the existence of regional autonomy, local governments can freely maximize Local Own-source Revenue (LOR) in accordance with the potentials of each region. The application of autonomy can encourage regional governments to make policy adjustments related to regional interests and conditions, shorten the bureaucracy, increase supervision, provide opportunities for innovation and creativity that can encourage increased welfare (Diana et al., 2018). In carrying out regional development, a lot of funds are needed so that it is important for each region to maximize their regional revenue. According to Law Number 33 of 2004 Article 1 paragraph 18, Regional Revenue is the right of the Regional Government which is recognized as an addition to the value of net assets in the period of the year in question. Regional Revenue consists of Local Own-source Revenue, Balance Fund and Other Income. (Diana et al., 2018) stated that the decentralization system implemented by the Indonesian government provides an opportunity for each regional head to be able to carry out his duties as a representative of the central government to be able to ensure the welfare of the people in their respective regions.

In this study, Local Own-source Revenue (LOR) was chosen as research subject because it represents the results of regional government's autonomy to manage their own resources. Referring to article 1 number 18 of Law Number 33 of 2004, LOR is income earned by the regions and collected based on regional regulations and in accordance with statutory regulations. In Article 157 it is also explained that LOR consists of Local Taxes, Local Retributions, Local Government-owned Company Proceeds, and Other Local Own-source Revenue. In this study, Province of Banten was chosen as the research area because as reported by the Banten Provincial Financial and Asset Management Agency (https://bpkad.bantenprov.go.id/), Banten's LOR is the second largest national PAD after DKI Jakarta. The trend of Banten's LOR 2016, 2017 and 2019 increased while in 2018 and 2020 it decreased. Reporting from the website of the Directorate General of Fiscal Balance (DJPK) Ministry of Finance (Kemenkeu) (https://djpk.kemenkeu.go.id/), the decrease in Banten Provincial Original Revenue in 2018 was due to a decrease in other LOR. Then, the biggest decrease in LOR in 2020 was caused by a decrease in Local Taxes The realized value of Banten's LOR has decreased, from 109.20% in 2016, 115.58% in 2017, 109.75% in 2018, 104.29% in 2019, to 76.03% in 2020. Based on this data, it can be concluded that there is still potential for Banten to optimize its LOR to increase independence in terms of implementing government activities so that community welfare can also be achieved optimally. During 2016-2020, Banten also succeeded in getting Unqualified Opinion (WTP) from the Indonesian Supreme Audit Agency (BPK) for its financial statements (https://bpkad.Bantenprov.go .id/). (Ardianto & Eforis, 2019) stated that government's financial reports is relevant when it can influence users to make higher quality decisions. A WTP opinion must be accompanied by an increase in people's welfare. Banten has succeeded in increasing the welfare of the population, as seen from the increase in the Human Development Index from 70.96 in 2016 to 72.45 in 2020.

In this research, stewardship theory is used. According to (Donaldson & Davis, 1991), stewardship theory describes a management situation that is not influenced by individual goals but rather is aimed at the main results for the benefit of the organization. The stewardship theory assumes that those who regulate or manage an organization do not have individual interests but prioritize the interests of the organization. Local Own-source Revenue is measured by the sum of Local Taxes, Local Retributions, Local Government-owned Company Proceeds, and Other Local Own-source Revenue. Higher LOR implied that regional government will have more independence in financing regional expenditures so that it leads to good economic growth. Factors that are estimated to affect LOR are total population (TP), Domestic Investment (DI), and Gross Domestic Regional Product (GDRP).

Total population (TP) are all Indonesian citizens and foreigners residing in Indonesia (Law No. 24 of 2013 concerning Population Administration). Total population can be used as input for production factors that can increase production. Total population is measured using the total of residents in Banten during 2016-2020. Higher population will cause higher level of consumption in the area, thus increasing local taxes and retributions that will be paid by residents, such as motorized vehicle fuel taxes and retributions for recreation and sports venues, so that LOR will increase. (Iman et al., 2019) stated that population had a positive effect on LOR.

LOR can also be influenced by Domestic Investment (DI). DI is an investment activity to carry out business activities in Indonesia by domestic investors using domestic capital. One example of DI is private investment related to housing development. With the construction of housing, it will increase local taxes such as Land and Building Taxes, Street Lighting Taxes,

and Advertising Taxes and will increase local retributions such as Building Permit Fees and Garbage Retributions. The increase of local taxes and retributions will also increase LOR. Previous research (Kurniawan et al., 2018; Lubis & Fitriani, 2018) found that domestic investment had positive and significant effect on Local Own-source Revenue.

Another factor that is expected to influence LOR is Gross Regional Domestic Product (GRDP). GRDP is the total value added of goods and services resulting from all economic activities in a region within a certain period of year. According to the Central Bureau of Statistics, GRDP is the total added value generated by all business units in a certain area. The higher the GRDP, indicating an increase in economic growth from year to year in Banten. When public consumption increases, it will increase the number of industries as well as the amount of production so that it can increase local taxes related to land and building taxes, taxes on the acquisition of land and building rights and will increase LOR. (Iman et al., 2019) stated that GRDP has a positive effect on LOR.

Based on the explanation above, the hypotheses in this study are:

Ha_1: Total population has a positive effect on Local Own-source Revenue.

Ha_2: Domestic Investment has a positive effect on Local Own-source Revenue.

Ha_3 : Gross Regional Domestic Product has a positive effect on Local Own-source Revenue.

2. Research Method

The objects in this study are districts and cities in Banten, which consists of: Lebak District, Pandeglang District, Serang District, Tangerang District, Cilegon City, Tangerang City, Serang City and South Tangerang City. The research method used is the causal study method. Causal study is research conducted to prove causal relationships that occur in the variables used in research (Sekaran & Bougie, 2016). In this study, it describes a causal relationship between the independent variables, namely total population, domestic investment, and Gross Regional Domestic Product to the dependent variable, namely Local Own-source Revenue.

The data used in this study is secondary data in the form of publications on regional financial statistics and publications for the Province of Banten for the period 2016–2020. Publication manuscripts were obtained from the Central Statistics Agency's website, namely www.bps.go.id, while data related to regional financial statistics for Banten were obtained from Banten Central Statistics Agency's website, namely www.banten.bps.go.id. The population used in this study are districts and cities in Banten. Data collection technique used was the census method where the data used was all of the observations in the population. According to Law Number 16 of 1997 concerning Statistics, a census is a way of collecting data by enumeration of all population units throughout the territory of the Republic of Indonesia to obtain the characteristics of a population at a certain time.

The classical assumption test was carried out to determine the normality and feasibility of the data for use, using the normality test, multicollinearity test, autocorrelation test, heteroscedasticity test. The analytical method used is multiple linear regression because there is more than one independent variable. The multiple linear regression equation used in this study is:

$$LOR = \alpha + \beta_1 TP + \beta_2 DI + \beta_3 GRDP + e$$

Explanation:

LOR = Local Own-source Revenue

α = Constant

β1, β2, β3 dan β4 = Regression coefficient from each independen tvariable
JP = Total Population
DI = Domestic Investment
GRDP = Gross Regional Domestic Product
e = *Standard error*

3. Results and Discussion

3.1. Results

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
LOR	126,900,900,000	2,872,568,513,000	1,015,918,251,525	849,402,067,133
TP	418,705	3,800,787	1,554,323	921,035
DI	356,000,000	10,018,165,000,000	2,229,095,005,000	2,478,675,012,064
GRDP	16,855,618,520,000	110,556,398,120,000	53,589,952,318,250	31,281,744,389,462

Descriptive test shows that each district and city have an average LOR of Rp1.015 billion, with average population of 1.554.323 citizens per district/city. Average domestic investment of each district/city is Rp2.229 billion and average Gross Regional Domestic Product is Rp53.589 billion.

Normality Test

The results of the Kolmogrov-Smirnov test shows the Monte Carlo sig. (2-Tailed) of 0.259. Therefore, it can be concluded that all data on the variables tested are normally distributed because the significance value of the test results is greater than 0.0

Multicollinierity Test

Table 2. Multicollinierity Test

Variable	Tolerance	VIF
TP	0.515	1.942
DI	0.382	2.615
GRDP	0.465	2.152

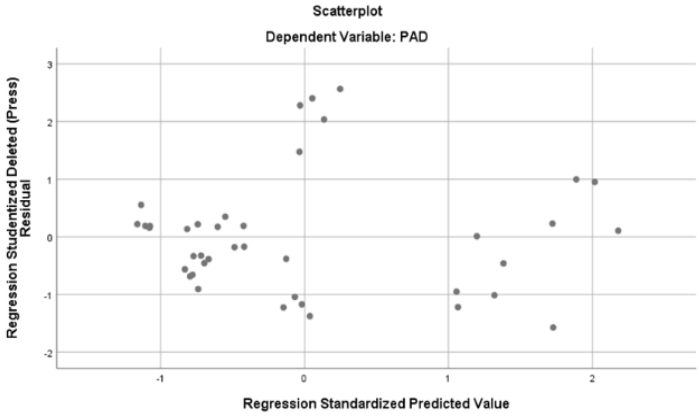
Based on the results of the multicollinearity test shown in Table 3.2, the variable Total Population (TP) variable has a tolerance value of 0.515 and a VIF value of 1.942, Domestic Investment variable (DI) has a tolerance value of 0.382 and a VIF value of 2.615, Gross Regional Domestic Product (GRDP) has a tolerance value of 0.465 and a VIF value of 2.152. In this model, there is no multicollinearity deviations between the independent variables.

Autocorrelation Test

The autocorrelation test using the Durbin-Watson test yield a value of 1.674. Based on the Durbin-Watson table, with 3 independent variables (k), and an observation value of 40, it shows a dU value of 1.6589. Therefore, it can be concluded that the Durbin-Watson test value is greater than the dU value obtained from the Durbin-Watson table. Then, the value of the test results is smaller than the 4-dU value, which is equal to 2.341. From the results of the autocorrelation test, it was concluded that there was neither positive nor negative autocorrelation in the regression model.

Heteroscedasticity Test

Figure 1. Heteroscedasticity Test



Based on the results of the heteroscedasticity test shown in the scatterplot graph in Figure 3.1, it can be seen that in the scatterplot graph between SRESID and ZPRED the dots are randomly scattered above and below the zero point on the Y axis, do not collect in only one area, do not form a regular pattern, such as wavy, widened and then narrowed again. Therefore, it can be concluded that there is no heteroscedasticity in the regression model.

Coefficient of Determination Test

Table 3. Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Est.
1	0.957	0.915	0.908	257,020,232,975

Based on the test results shown in table 3.3, the correlation coefficient (R) in this study is 0.957 or 95.7%. This shows that the relationship between the independent variables (TP, DI, and GDRP) to dependent variable (LOR) is very strong because it is in the coefficient interval of 0.80-1.000. Adjusted R^2 is 0.908, which means independent variables are able to explain 90.8% variation in LOR.

F-test

F statistical test have an F value of 129.983 with a significance level of 0.000. The significance value is below 0.05, so it can be concluded that all independent variables simultaneously have a significant influence on the dependent variable. The calculated F value in the study (129.983) is greater than the F table value (2.87), so it can be concluded that the sample regression function in estimating the actual value is correct or the model is fit.

T-test

Table 4. T-test Statistic

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. error	Beta		
Constant	-543,606,434,568	96,938,222,930		-5.608	0.000
TP	544,090	62,274	0.590	8.737	0.000
DI	-0.008	0.027	-0.024	-0.312	0.757
GDRP	0.014	0.002	0.503	7.082	0.000

Based on Table 4., multiple linear regression equation is as follows:

$$LOR = - 0.590\ TP - 0.024\ DI + 0.503\ GDRP + e$$

3.2. Discussion

Effect of Total Population on Local Own-source Revenue

The variable total population (TP) has a regression coefficient of 0.590. The coefficient is positive, which means that there is a positive influence between the total population and local revenue. Every 1% increase in the total population will cause an increase in local revenue by 0.590 or 59%. Based on Table 3.4, TP has t value 8.737 with a significance level 0.000, which is less than 0.05. Therefore, Ha_1 is accepted, which means that the total population has a positive effect on Local Own-source Revenue. This result is in line with the results of (Ariyani et al., 2018; Idrus & Irma, 2017; Oktiani, 2021).

The total population is all people who have been domiciled in the geographical area of the Republic of Indonesia for 6 months or more and/or those who have been domiciled for less than 6 months but intend to settle down. Population is measured using the total population in each district/city in Banten during 2016-2020. Total population has a positive influence on LOR because increase in population will also increase the workforce. Thus consumption both for primary and secondary needs will arise, which in turn increase Regional Taxes and Regional Retribution so that LOR will be higher.

Effect of Domestic Investment on Local Own-source Revenue

DI has a regression coefficient of -0.024. The coefficient is negative which indicates that there is a negative relationship between DI and LOR. An increase of 1% in DI, will cause a decrease in LOR by 2.4%. DI has t value of -0.312 with a significance value 0.757, which is above 0.05. It can be concluded that Ha_2 is rejected, therefore DI has no positive effect on LOR. This result is in line with (Kurniawan et al., 2018).

In this study, out of 40 observations, 23 observations have DI below average. It can be concluded that most districts/cities have low domestic investment. Of the 23 observations that were below average, 13 of them experienced an increased number of projects. More investment projects will lead to higher demand of labor force and result in more consumption. Higher consumptions lead to an increase of 22% in local tax and 16% in LOR. It can be concluded that even though the amount of domestic investment in a year declined, the number of projects can still be increased by using funding from previous years, therefore still contributing to higher LOR.

Effect of Gross Domestic Regional Product on Local Own-source Revenue

GDRP has a regression coefficient of 0.503. The coefficient is positive, which means that there is a positive relationship between GDRP and LOR. Every 1% increase in GDRP will lead to an increase in LOR of 50.3%. GDRP has a t value of 7.082 with a significance level 0.000, which is less than 0.05. Based on the test result, Ha_3 is accepted, which means that GDRP has a positive effect on LOR. This result is in line with the results of of (Ariyani et al., 2018; Mawar & Sroyer, 2021; Sulkadria & Juliansyah, 2018).

GDRP is a benchmark to see growth and changes in economic structure in a region. An increase in GDRP indicates an increase in economic growth from year to year. Economic growth indicates a growth in the total value of goods and services produced due to an increase

in public demand for an item or service. This increase causes public spending to increase thereby causing an increase in regional taxes and regional retributions. The increase in regional taxes and regional retributions has led to an increase in LOR.

4. Conclusion

Total population and Gross Domestic Regional Product have positive and significant influence on Local Own-source Revenue of Banten Province. These results are as expected because higher TP and GDRP resulted in higher production and consumption of goods and services, which are subjects for regional taxes and retributions, therefore increasing LOR. Banten's provincial government can take advantage of the large population in Banten as one of the factors to increase LOR by maximizing the quality and absorption of labor so that the majority of people have income to spend on primary and secondary needs secondary. Local government could also providing Direct Cash Assistance (BLT), prioritizing the use of local products for government projects, and providing assisstance and facilities for local entrepreneurs so that the prices of products and services can compete with imported products, thus increasing LOR.

The limitation in this research is the difficulty in obtaining the necessary data, as some of the required data could not be accessed by public, therefore limiting the variable observed and the analysis conducted. For future research, we suggest to submit a request for more data from the government, so that more independent variables can be used.

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