

A STUDY ON HOW THE REGIONAL FINANCIAL INDEPENDENCE RATIO SUPPORTS REGIONAL AUTONOMY IN SERANG CITY



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ABSTRACT

Regional financial independence covers the region's capacity to oversee and make use of its financial resources effectively and efficiently, without reliance entirely on the funds of the central government in accordance with Act No. 32 of 2004 on regional government. This study aims to find out how great the degree of economic independence of the local government is, in particular the Kota Serang, in support of the autonomy of the area. This research uses the method of descriptive with a qualitative approach by measuring the ratio of financial independence of the government of the area of Kota Serang. The data obtained through observations and library studies were used for data analysis techniques using the ratio of regional financial independence (RKKD). The results of the research showed that the ratios of financial autonomy of the Kota Serang during the period 2021–2023 are still at a low level, i.e., at 35.04%. It can be understood that the real income of the Kota Serang still relies on the contributions of either the Central Government or the Provincial Government through the General Allocation Fund and Special Allocation Funds.

Keywords: *Regional Natural Income; Ratio of Financial Independence;
Regional Financial Management*

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INTRODUCTION

One important concept in the governance of Indonesia is regional autonomy (Asrul, 2022); however, in its implementation, it does not mean that local governments can freely manage their own regions. The freedom referred to is a freedom accompanied by responsibility because, in principle, the central government still maintains control, or in other words, the central government still plays a role in overseeing the implementation of regional autonomy so that the principles contained in regional autonomy do not conflict with policies originating from the central government (Suriadi et al., 2024). This concept has become an important part of efforts to improve public services, community participation, and local economic development since it was introduced during the reform period (Pratiwi, 2021). Regional autonomy is expected to create a governance system that is more responsive and aligned with local needs, namely by granting regions the authority to manage most of their governmental affairs (Moonti, 2017). One of the main advantages of regional autonomy is the empowerment of local governments to formulate policies that cater to the unique characteristics and needs of their areas (Moonti, 2017). This is in line with the spirit of decentralization, which acknowledges that each region has its unique characteristics. The regional government granted autonomy is expected to operate more flexibly and efficiently (Arnawa, 2020).

The desire for regional autonomy also shows how important it is for local administrations to engage the community, and Law No. 32 of 2004 on regional government emphasizes that local governments have full authority to regulate all development planning in line with the desires of the community. Therefore, community involvement is essential to realize this development planning (Asyiawati et al., 2021). Moreover, it will be even easier if the communication between local governments and the community is close, making it simpler for the community to express their wishes and needs (Fikri et al., 2023). This creates an environment where democracy can function better and adapt to the needs of the people. However, regional autonomy has many advantages, but it also has many challenges. One of them is the difference between regions that have advanced and those that are lagging behind in implementing autonomy (Sommaliagustina, 2019). Many regions have sufficient financial levels and resources, but there are also quite a few areas that, on the contrary, lack both good resources and finances to effectively utilize autonomy. However, there may also be regions that face difficulties in managing them (Hulwah, 2020). Therefore, coordination between the central and regional governments is an additional challenge. In some situations, there is a possibility that national and local policies may not align with each other, which can hinder the achievement of common goals (Sibarani, 2017). To ensure that the implementation of regional autonomy runs more smoothly, further efforts are needed for more intensive coordination and communication between local governments and the central government (Wijayanti.NS, 2017). In addition, the issues of accountability and transparency in local autonomous government are also a serious concern (Nurhayati, 2017). This is necessary to ensure that the policies created by the local government truly meet the needs of the community. Transparency in decision-making and accountability in budget management must be implemented effectively (Adeti.B.A & Christiani.C, 2022). By addressing these issues, Indonesia can implement the idea of regional autonomy more effectively and enhance local governance for the common good (Guntoro, 2021).

Serang City is a city located in Banten Province. Based on Law No. 32 of 2007, Serang City was officially designated as the capital of Banten Province. As the provincial capital, it is only fitting for Serang City to continuously improve its region in terms of economy, governance, and public services. These three aspects are consistently being enhanced by

the Serang City government as a manifestation of the level of independence in managing its regional finances. Essentially, the independence of local governments in managing their finances is closely linked to the extent of Local Original Revenue (PAD) that can potentially be obtained by the Serang City government. This is because PAD is the most important indicator of how effectively local governments manage their finances (Yusuf et al., 2015). The higher the local original revenue, the smaller the local government's dependence on income from other sectors (Ramadhan et al., 2022). One piece of evidence for a region's independence from income derived from other sectors is the change in the economic welfare of its community (Putra & Hidayat, 2016). Another indication can be seen in the continuous improvement of economic growth that increases each year, which shows that economic welfare is also improving or, conversely, declining (Sultan et al., 2023). In addition, the increasing economic growth can serve as a reference for making various policies that will be implemented by the next government, whether those policies should be continued, improved, or completely halted, in relation to the government's role in the economy (Hawanda et al., 2022).

Financial independence of a region is the most important aspect for a local government to demonstrate its ability to meet the operational needs of its organization. Financial independence can be evidenced by the absence of any income sources other than the region's own original revenue (Bella, 2022). This is because many regions still rely on income from other sources, such as government assistance or regional loans. Essentially, regional independence is a concept that explains how the government can maximize its original regional revenue, which comes from local taxes and levies, as well as various forms of regional development. When combined with the effectiveness of a region, it embodies the essence of that regional independence (Yakub et al., 2022).

Many previous researchers have studied the financial independence of local governments, such as the work done (Yusuf et al., 2015). Their research indicates that the financial independence of the two local governments chosen as research subjects (Bone Belango Regency and Morowali Regency) is very low. Both subjects still heavily rely on regional income from other sources, namely transfer income from the central government and the provincial government.

The purpose of this study was to analyze the level of financial independence of the local government and the impact of this financial independence as well as to understand what are the obstacles and supporters of financial independence in the Serang City.

LITERATURE REVIEW

Regional Financial Management

The concept of regional financial management encompasses a series of actions carried out by local governments to collect, supervise, and allocate financial resources to meet the needs of the local community (Fajaruddin, 2021). This concept encompasses aspects of income, expenditure, and budget allocation to support development and public services at the local level (Palayukan, 2019). Its role in supporting local development and public services makes regional financial management very important (Juanda & Heriwibowo, 2016). Local governments can enhance infrastructure, community welfare, and the sustainability of the local economy by managing budgets wisely. Regional financial management is closely related to the principle of regional autonomy, which grants local governments extensive authority to make decisions according to their own unique characteristics and needs (Hasyim, 2021).

Regional Revenue and Expenditure Budget (APBD)

Regional Revenue and Expenditure Budget refers to the annual financial plan created by the local government. The regional budget (APBD) includes details on how the budget is utilized for various activities and programs during the budget period (Mahpudin & Lestari, 2021), as well as the expected sources of revenue that the local government anticipates from various sources, such as taxes, levies, and balancing funds from the central government. The details of the regional revenue and expenditure budget can vary depending on the policies and needs of each region, as well as the economic and social conditions that influence income and spending (Yaqin et al., 2018)

Regional Financial Independence

Financial independence of the region is an important component of local governance as it indicates that the region has the ability to manage its finances (Prakoso et al., 2019). The financial independence of this region can be achieved through the optimization of local revenue (PAD), which includes increasing tax and retribution income, developing regional-owned enterprises, and managing finances transparently and effectively, developing local economic potential, investing in human resources, and managing debt wisely (Wardhono et al., 2013). The increase in financial independence will enable the region to meet the development and public service needs of its own community without overly relying on resources from external parties (Nurhayati et al., 2019).

METHOD

The research conducted used a descriptive method through a qualitative approach, focusing on how to master the understanding of regional financial management. The information gathered was derived from two sources: the Central Statistics Agency's reports, which were made public by the Serang City BPS, and interviews with reliable sources, specifically the DPKAD office of Serang City. Meanwhile, for the data analysis itself using the Regional Financial Independence Ratio (RKKD), the use of this ratio allows us to see the level of a region's ability to finance its government activities, such as development and public services to the community that has dutifully paid the taxes or levies set by the Serang City Government, where these taxes and levies are a source of income for the region itself. As a reference, the formula for measuring the risk of independence of a region according to (Public Sector Performance Management / Mahmudi | OPAC National Library of Indonesia, n.d.) is:

$$RKKD = \frac{PAD}{Pendapata \ Transfer} \times 100\%.$$

In addition to the formula for calculating the regional independence ratio, a table is also presented to measure the regional independence ratio (Halim, 2001):

Table 1
Criteria for Regional Financial Independence

Self-Reliance Ratio	Criteria
75 % - 100 %	Elevated
50 % - 75 %	Right Now
25 % - 50 %	Low
0 % - 25 %	Extremy Low

Source: Halim, 2000)

RESULTS AND DISCUSSION

Revenue of Serang City

The sources of regional revenue for the City of Serang come from all the receipts received by the Serang City government through the regional general cash account. The Serang City government's present equity has increased as a result of these receipts; this equity was established inside a fiscal year and is not subject to return by the relevant area. All regional receipts for the City of Serang originate from regional revenue, transfer income, and certainly also from other legitimate regional income. This is an overview of the regional income of the City of Serang for the period from 2021 to 2023.

Table 2
Total Revenue of the Serang City Local Government for the Period 2021-2023

Year	PAD (Rp)	Transfer Income Rp	Other Legitimate Regional Revenues (Rp)	Total Regional Revenue (Rp)
2021	206.238.434.813	947.689.513.650	83.117.955.900	1.237.045.904.363
2022	364.829.416.950	904.377.755.270	190.297.626.670	1.459.504.798.890
2023	276.619.721.250	863.835.963.600	257.348.977.460	1.397.804.662.310

Source : BPS Kota Serang 2024

Based on the data, the total regional revenue obtained from the sum of Original Regional Revenue, Transfer Revenue, and other legitimate income of the Serang City government for the year 2021 amounted to Rp. 1,237,045,904,363. In the following year, 2022, it experienced an increase of 0.85% to Rp. 1,459,504,798,890, but conversely, in 2023, it saw a decline again to Rp. 1,397,804,662,610.

Data Analysis

Financial ratio analysis is an analysis aimed at identifying characteristics deemed important regarding the financial position and activities of a company based on financial statements (Putra et al., 2021). The financial independence ratio was the ratio employed in this investigation. As a manifestation of governance in the Serang City, and the data is derived from the Realization Report of the Serang City Budget for the period of 2021 – 2024. These are the results of the financial independence ratio calculations for the Serang City for the period of 2021 – 2023.

The Government of Serang's Independence Ratio in 2021:

$$\begin{aligned} \text{Ratio of Independence in 2021} &= \frac{206.238.434.813}{947.689.513.650} \times 100\% \\ &= 21,76\% \end{aligned}$$

Based on the calculations of the local government independence ratio of Serang City in 2021, which stands at 21.76%, this figure indicates that the financial independence level of the local government of Serang City is at a "very low" level and can be categorized as still heavily reliant on transfer funds from the Central Government.

The Government of Serang's Independence Ratio in 2022:

$$\text{Ratio of Independence in 2022} = \frac{364.829.416.950}{904.377.755.270} \times 100\% \\ = 40,34\%$$

Serang City's local government independence ratio for 2022 is 40.34%, which suggests that the local government's financial independence is at a "low" level. These calculations were made based on the data. It can be categorized that the local government of Serang City still heavily relies on transfer funds from the central government, even though in 2022 the local revenue of Serang City experienced an increase compared to the previous year.

The Independence Ratio of the Serang City Government in 2023:

$$\text{Independence Ratio in 2023} = \frac{276.619.721.250}{863.835.963.600} \times 100\% \\ = 32,02\%$$

Based on the calculations of the local government independence ratio of Serang City in 2022, which stands at 32.02%, this figure indicates that the financial independence level of the Serang City local government is at a "low" level and can be categorized as still relying on revenue from central transfers. This aligns with the decline in the original local revenue of Serang City.

Table 3
Results of the Financial Independence Ratio Analysis of the Serang City Local Government
Period 2021 – 2023

Tahun	PAD (Rp)	Transfer Income Rp	Level of Independence (%)	Categories
2021	206.238.434.813	947.689.513.650	21,76%	Very low
2022	364.829.416.950	904.377.755.270	40,34%	Low
2023	276.619.721.250	863.835.963.600	32,02%	Low
Average			35,04%	Low

Source : Data Processed, 2024

Discussion

Serang City is the capital of Banten Province. As a capital, it must look good because Serang City reflects the progress of Banten Province's economy. At 17 years old, Serang City should be able to achieve financial independence and not always rely on support from the provincial or central government. Looking at the data, the average financial independence ratio of the Serang City Government from 2021 to 2023 is still relatively low, and in reality, the Serang City government still requires financial support from both the provincial and central governments.

Based on the financial independence ratio data for the year 2021, the Serang City is very low, with the ratio only reaching around 31.76%. This may be due to the realization of tax and retribution revenues that have not met the targets set by the Serang City, both from tax and regional retribution components. The achievement from the tax sector is 95.33%, although according to the explanation from the DPKAD of Serang City, this result is still better than the previous year. Meanwhile, for retribution itself, it only

reached 72.69%, although in reality, this achievement is better than the previous year. This phenomenon should be a concern for the relevant agencies to find ways to ensure that the targets previously set can be achieved. Additionally, it is hoped that the Serang City can seek other sources of income that may boost the Original Regional Revenue in the coming years.

Based on the data processing results of the financial independence ratio for the year 2022, the Serang City Government is in a low position, with the ratio only reaching around 40.34%. Although it remains at a low level, this is very encouraging for the Serang City Government because there has been an increase in the financial independence percentage to 40.34% from the previous year, which was only 31.76%. This proves that the evaluations conducted by the Serang City Government have successfully boosted the Original Regional Revenue, especially from the Rural and Urban Land and Building Tax sector. According to the results of interviews conducted, the achievement from the Land and Building Tax P2 exceeded the predetermined target, reaching 101%. However, this has not changed the financial independence condition of the Serang City Government, which remains in a low position. This indicates that the Serang City Government is still heavily dependent on funding support from both the Provincial Government and the Central Government and other sources of income that could boost the Regional Original Income for the coming years.

Based on the financial independence ratio data for the year 2023, the Serang City Government is still in a low position, with the ratio only reaching around 32.02%. Although it remains low, there has been a decline of 8.32% from the previous year. This is due to the failure to meet the target set for Regional Tax Revenue in 2023, which was initially targeted at IDR 231,000,000,000 per year but only achieved IDR 197,234,914,000, or about 85%. Even more concerning, the revenue from fees set after the amendment was IDR 33,816,357,500, but the actual realization was only IDR 8,835,805,590, or around 26.13%. This is likely to contribute to a further decline in the financial independence performance of the Serang City Government compared to the previous year. Given these figures, it is only reasonable for the Serang City Government to start re-identifying potential sources that could become future Local Original Revenue. Additionally, the Serang City Government must be more vigilant in addressing any leaks in the collection of Local Original Revenue, both from the Regional Tax sector and the Regional Retribution sector.

Based on the discussion, it is evident that the independence ratio of the Serang City Government is still in a low condition. This indicates that the Serang City Government still heavily relies on support and transfers from both the Central Government and the Provincial Government. In fact, as the capital of Banten Province, Serang City should be able to manage its regional finances independently. With the slogan "Aje Kendor," it is hoped that the Serang City Government can realize a city with the best level of financial management independence.

CONCLUSION AND SUGGESTION

Based on the analysis of the Financial Independence Ratio of the Serang City Government for the period of 2021 – 2023, there has been fluctuation; however, the ratio has not yet shown the ideal figure desired by the Serang City Regional Government. Although in 2022 the ratio reached 40.34% and was close to the ideal number, the following year saw a decline again. The results indicate that, in terms of assessment, the Serang City Government is not yet independent in supporting regional autonomy. This is due to Serang City's Local Revenue still relying on transfers from the Central and Provincial

Governments in the form of Special Allocation Funds and General Allocation Funds. It is hoped that with the continued growth of Serang City, the financial management independence of Serang City can reach an ideal level, categorized as Medium or even better, falling into the High category.

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