The Influence of Regional Original Income Ratio and Regional Independence on Shopping Regional Regional Government And Cities in North Sumatra

Rina Suanda Adurance Pasaribu;
Vina Arnita
Faculty Social Sains
Universitas Pembangunan Panca Budi
rinahabeahan91@gmail.com;
vinaarnita@dosen.pancabudi.ac.id

Abstract— This research aims to analyze the influence of return on assets, return on equity and net interest margin on the share prices of Commercial Banks listed on the IDX. The sample used in this research was 21 companies. The observation period used in this research was 4 years so the number of observations in this research was 84 observation sample units. The data obtained was analyzed using statistical formulas, namely by using multiple linear regression analysis which was processed using the SPSS program. The research results show that the t-value is 0.692 < 1.974 (t-table) and sig 0.000 < 0.05, so H1 is accepted and H0 is rejected, it can be concluded that the PAD Ratio has no significant effect on Regional Expenditures. The t-count value is 10.906 > 1.974 (t-table) and sig 0.434 > 0.05, so H2 is accepted and H0 is rejected, it can be concluded that Regional Independence has a significant effect on Regional Expenditures. The calculated F value is 59.650 which is greater than 3.05 and the significant value of 0.000 is smaller than 0.05 so it can be concluded that hypothesis 3 is accepted and hypothesis 0 is rejected so it can be concluded that the PAD ratio and Regional Independence have a significant simultaneous effect on expenditure. Area**.**

Keywords— *Regional Original Income Ratio, Regional Independence and Regional Expenditures*

INTRODUCTION

APBD is a regional policy instrument. Capital expenditure consists of operating expenditure, capital expenditure and unexpected expenditure. Regional governments allocate funds in the form of capital expenditure budgets to increase fixed assets. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities. Capital expenditure is government expenditure whose benefits exceed one budget year and will increase assets and then increase routine expenditure such as operating costs and maintenance costs.' Riswan (2019) regional expenditure is budget expenditure to acquire fixed assets and other assets that provide benefits for more than one accounting period. To find out whether an expenditure can be included as capital expenditure or not, it is necessary to know the definition of fixed assets or other assets and the criteria for capitalization of fixed assets. Based on PP Number 12 of 2019 concerning Regional Financial Management, it explains that Capital Expenditures, as referred to in paragraph 1 letter b, are budget expenditures for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period

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Table 1 Regional Expenditures in North Sumatra Province

Year	Regional Shopping
2018	873,639,477,216
2019	900,840,799,374
2020	789,395,591,349
2021	732,348,806,372
2022	696,581,644,850

Source: Data processed by researchers 2024

Based on the data above, it can be seen that the highest regional expenditure in 2019 was IDR 900,840,799,374, decreasing until 2022 to only IDR 696,581,644,850. This decline shows that the North Sumatra Province region is experiencing limitations in using the budget to carry out regional development due to the Covid-19 incident so that production activities have decreased.

Darise (2018) states that the financial independence of a region is greatly influenced by Regional Original Income (PAD) in meeting all government spending needs, both operational spending and capital spending. The more needs that can be met, the higher the level of independence of a region, and vice versa, the less expenditure that can be met with original regional income, the lower the level of independence of a region.

Table 2 PAD Ratio for North Sumatra Province

Year	Realization of Regional Original Income	Regional Original Revenue Budget	Ratio	Criteria
2018	5,192,045,350,369	6,505,437,706,992	79.8%	Less Effective
2019	5,551,134,985,314	6,368,721,004,642	87.2%	Quite Effective
2020	5,077,070,121,74	7,105,142,711,40	71.5%	Less Effectiv

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2021	6,786,521,621,00 0	6,786,521,621,00 0	100.0 %	Effectiv e
2022	5,906,230,315,06 8	7,817,038,860,81 7	75.6%	Less Effectiv e

Source: Data processed by researchers 2024

Based on the table above, it can be seen that in 2018 the ratio PAD was 79.8% with less effective criteria, in 2019 it was 87.2% with quite effective criteria, in 2020 it was 71.5% with less effective criteria. In 2021 it will be effective with a ratio reaching 100% and in 2022 it will be 75.6% with less effective criteria. This shows that the low ability of North Sumatra Province to explore the potential of sources of original regional income is reflected in the receipt of Original Regional Income (PAD) which is still relatively small. Regional governments are still dependent on funds and assistance from the central government which is reflected in the amount of central government assistance both in terms of routine budgets, namely subsidies for autonomous regions and from the perspective of regional government budgets.

Regional financial independence is demonstrated by the size of regional original income compared to regional income originating from other sources. The higher the independence ratio means that the level of regional dependence on assistance from external parties (especially the central and provincial governments) is lower, and vice versa. The higher the independence ratio, the higher the community participation in paying regional taxes and levies, which is the main component of Original Regional Income. The higher the community's participation in paying regional taxes and levies, the higher the level of community welfare.

Table 3 Regional Independence Ratio of North Sumatra Province

Year	Locally Generated Revenue	Central Transfer	Ratio	Criteria
2018	5,192,045,350,36 9	29,075,768,873,10 2	17.86 %	Very Low
2019	5,551,134,985,31 4	30,358,479,249,71 3	18.29 %	Very Low
2020	5,077,070,121,74 6	30,439,897,508,35 1	16.68 %	Very Low
2021	6,786,521,621,00 0	33,294,336,207,47 5	20.38 %	Very Low
2022	5,906,230,315,06 8	34,002,199,895,25 5	17.37 %	Very Low

Source: Data processed by researchers 2024

Based on the data above, it can be seen that during the 2018-2022 period, the criteria for the blood financial independence ratio were at very low criteria, meaning that the regional government was still very dependent on central transfers, where local original income was still very small, so it needed assistance to realize the regional development program.

Several research results show that several other studies show inconsistencies in research results. Riswan's (2019) research results show that the regional independence ratio has a positive and significant effect on the spending ratio. Meanwhile, Handayani's (2018) research results show that the regional independence ratio has a positive and insignificant effect on the capital expenditure ratio. Based on the description above, the research title is determined as follows: "The Influence of the Ratio of Original Regional Income and Regional Independence on Regional Expenditures in Regency and City Governments in North Sumatra".

I. OVERVIEW

A. Agency Theory

Signaling theory emphasizes the importance of information released by the company on the investment decisions of parties outside the company. Information is an important element for investors and business people because information essentially provides information, notes or descriptions of past, current and future conditions for the survival of a company and how the market is affected. According to (Irawan and Zainal, 2018) . In the public sector, agency problems occur between officials elected by the people as agents and voters (the public) as principals.

B. Regional Shoping

Riswan (2019), regional expenditure is budget expenditure to obtain fixed assets and other assets that provide benefits for more than one accounting period. To find out whether an expenditure can be included as capital expenditure or not, it is necessary to know the definition of fixed assets or other assets and the criteria for capitalization of fixed assets

C. Regional Financial Independence Ratio

The regional financial independence ratio shows the regional government's ability to finance its own government activities, development and services to the community who have paid taxes and levies (Halim, 2018). Riswan (2019) regional independence referred to in this research is the ability of regional income to finance regional government expenditure. So that dependence on the central government has a smaller proportion, and regional original income.

D. Original Regional Income

Original regional income is income obtained from regional income sources and managed by the regional government itself. Original regional income is the backbone of regional financing, therefore the ability to carry out the economy is measured by the size of the contribution made by Original Regional Income to the APBD. The greater the contribution that Regional Original Income can make to the APBD means the smaller the regional government's dependence on central government assistance.

E. Regional Income Ratio

The regional financial income ratio describes the regional government's ability to realize the planned PAD compared to the set PAD target (Halim, 2018). Describes the ability of regional governments to realize planned regional original income compared to targets set based on regional real potential (Halim, 2018).

II. CONCEPTUAL FRAMEEWORK
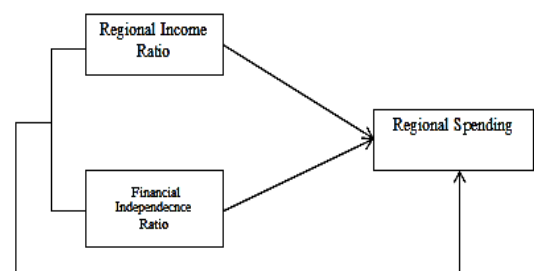
Picture 1. Conceptual Framework

Hypothesis

1. The regional income ratio partially has a significant effect

on the efficiency of regional spending in Regency and City governments in North Sumatra.

2. The regional financial independence ratio has a significant effect on the efficiency of regional spending in Regency and City governments in North Sumatra.

3. The regional income effectiveness ratio and regional financial independence simultaneously have a significant effect on the efficiency of regional spending in Regency and City governments in North Sumatra.

III. METHODOLOGY

The research used in this research is causal associative quantitative research. According to (Manullang, M and Pakpahan, M, 2016) causal research (cause-effect relationship) is "research that wants to see whether a variable that acts as an independent variable has an effect on another variable that is a dependent variable.

The population in this research is the realization report of the Regency/City APBD in North Sumatra Province. The population used in this research was 33 districts/cities. The number of samples studied was 33 districts/cities. The APBD observation year used is 5 years (from 2018, 2019, 2020, 2021 and 2022).

IV. RESEARCH RESULT

A. Results

Multiple Linear Regression Analysis

Model	Unstandardised Coefficients		Standarddized Coefficient
	B	Std Error	Beta
	27.570	0.069	
Regional Income Ratio	-0.054	0.077	-0.041
Financial Indepencence Ratio	2.058	0.189	0.650

Dependent : Regional Spending
Source: Data processed by researchers 2024

Based on the table above, the Multiple Linear Regression equation can be formulated as follows:

$$Y = 27.570 - 0.054 X1 + 2.058 X2$$

The interpretation of the multiple linear regression equation above is as follows:

1. If everything in the independent variables is considered non-existent then the Regional Expenditure (Y) value is 27.570.

2. If there is an increase in the PAD ratio by 1 unit, then Regional Expenditure (Y) will decrease by -0.054.

3. If there is an increase in Regional Independence by 1 unit, then Regional Expenditure (Y) will decrease by 2,058

Hypothesis Partial Testing

Model	Unstandardised Coefficients		Standarddized Coefficient	t	Sig
	B	Std Error	Beta		
	27.570	0.069		400.705	0.000
Regional Income Ratio	-0.054	0.077	-0.041	-0.692	0.490
Financial Indepencence Ratio	2.058	0.189	0.650	10.906	0.000

Dependent : Regional Spending
Source: Data processed by researchers 2024

Based on the partial test results in the table above, it can be seen that the test results for each independent variable are as follows:

1. Hypothesis Test Results Ratio of PAD to Regional Expenditures

The t-count value is 0.692 < 1.974 (t-table) and sig 0.000 < 0.05, so H1 is accepted and H0 is rejected, it can be concluded that the PAD Ratio has no significant effect on Regional Expenditures.

2. Results of Regional Independence Hypothesis Testing on Regional Expenditures

The t-count value is 10.906 > 1.974 (t-table) and sig 0.434 > 0.05, so H2 is accepted and H0 is rejected, it can be concluded that Regional Independence has a significant effect on Regional Expenditures.

Hypothesis Simultant Testing

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.180	2	8.090	59.650	.000[a]
	Residual	21.971	162	.136		
	Total	38.150	164			

Dependent : Regional Spending
Source: Data processed by researchers 2024

Simultaneous hypothesis testing or F test proves that the calculated F value is 59.650 which is greater than 3.05 and the significant value of 0.000 is smaller than 0.05 so it can be concluded that hypothesis 3 is accepted and hypothesis 0 is rejected so it can be concluded that the ratio of PAD and Regional Independence has a significant simultaneous effect on Regional Expenditures.

Coefficient of Determination Test (Adjust R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.651	0.424	0.417	0,368

Source: Data processed by researchers 2024

The adjusted R Square value is 0.417, which means that the ratio of PAD and Regional Independence is able to explain and influence Regional Expenditures by 41.7%, the rest of which is influenced by other variables not studied, namely 58.3%.

B. Discussion

1. The influence of the partial regional original income ratio on the efficiency of regional spending in Regency and City governments in North Sumatra.

The results of this research show that the t-count value is 0.692 < 1.974 (t-table) and sig 0.000 < 0.05, so H1 is accepted and H0 is rejected, it can be concluded that the PAD Ratio has no significant effect on Regional Expenditures. The results of this research support the results of previous research, namely Andani (2022), which stated that the PAD ratio does not have a significant effect on regional spending

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efficiency. The PAD growth ratio has a very poor ability to finance regional development. This happens because the PAD of cities and districts in North Sumatra is still relatively small when compared with total regional income. The negative spending growth ratio indicates that Binjai City spending has decreased due to a decrease in the budget caused by the unfavorable economy during Covid 19.

2. The influence of the partial regional financial independence ratio on the efficiency of regional spending in Regency and City governments in North Sumatra.

The results of this research show that the t-count value is 0.692 < 1.974 (t-table) and sig 0.000 < 0.05, so H1 is accepted and H0 is rejected, it can be concluded that the PAD Ratio has no significant effect on Regional Expenditures. The results of this research support the results of previous research, namely Handoko and Pratama (2019) which stated that the independence ratio has a significant effect on regional spending efficiency. The independence ratio shows that the financial capacity of cities and districts in North Sumatra is still very low because it is at a ratio of 0-25%. This means that Binjai City is still very dependent on the Center. The financial independence of Binjai City as a whole can be said to be still low, this illustrates that the level of regional dependence on external funding sources is still very high. Regions have not been able to optimize PAD to finance regional development. In financing government implementation and development, it is still very dependent on assistance from the Central Government and local Provincial Governments.

3. The influence of the regional income effectiveness ratio and regional financial independence simultaneously on the efficiency of regional spending in Regency and City governments in North Sumatra

The results of this research show that the t-value is 0.692 < 1.974 (t-table) and sig 0.000 < 0.05, so H1 is accepted and H0 is rejected, it can be concluded that the PAD Ratio has no significant effect on Regional Expenditures . The decline in regional spending in North Sumatra Province shows limitations in using the budget to carry out regional development due to the Covid-19 incident so that production activities have decreased

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