Determinants of Regional Financial Independence: A Study of Local Taxes, Balancing Funds and Capital Expenditure in East Java (2020-2023)

Radina Ayuningtyas
Fakultas Ekonomi dan Bisnis, Muhammadiyah University of Jember
radinaayuningtyas098@gmail.com
Gardina Aulin Nuha
Fakultas Ekonomi dan Bisnis, Muhammadiyah University of Jember
gardina@unmuhjember.ac.id
Achmad Syahfrudin Zulkarnaeni
Fakultas Ekonomi dan Bisnis, Muhammadiyah University of Jember
syahfrudin@unmuhjember.ac.id

Abstract

Regional financial independence serves as a crucial indicator for evaluating the capacity of a region of a local government to finance spending needs without high dependence on the central government. This research seeks to examine the impact of local taxes, balance funds, and capital expenditures on regional financial independence in local governments of East Java during the 2020-2023 period. The research employs a descriptive quantitative methodology, utilizing a panel data regression approach. The data for this analysis was sourced from the financial statements of local governments, as published by the Supreme Audit Agency (BPK) of the Republic of Indonesia. The findings reveal that local taxes have a positive and significant effect on regional financial independence, while the balance fund demonstrates a negative and significant impact. Furthermore, capital expenditure does not appear to significantly influence regional financial independence. These findings suggest that higher local tax revenues can enhance a region's financial independence, while depending on balanced funds tends to hinder it. Therefore, local governments need to optimize local tax revenues and improve efficiency in the allocation of capital expenditures in order to strengthen fiscal independence.

Keywords: Local Tax, Balance Fund, Capital Expenditure, Regional Financial Independence, Local Government, East Java

INTRODUCTION

Indonesia underwent a significant transformation, shifting from a centralized government structure to a more decentralized system. leading to changes in local government policies and authorities. (Roychana, 2022). The reforms that occurred in Indonesia brought changes in various sectors, including the political, social, social and economic systems, thus creating various decisions for changes in better government management. In following up on ongoing reform activities, management of regional autonomy and the regional financial system is needed in order to create a structured

government management (Defitri, 2020). Since the enactment of Law No. 22 of 1999 on Local Government and Law No. 25 of 1999 on the financial balance between Central Government and Local Government in Indonesia, has shown the emergence of changes in governing local government. And finally the government established Law of the Republic of Indonesia No. 23 of 20144 Regional Government.

Related to the granting of authority in taking a decision to meet the needs of the region as well as a series of related activities to create prosperity for the community, the role of regional financial data is needed to know in detail the sources of financing the expenditure of activities issued by each region. One important indicator used to evaluate the ability of the region is to assess the independence of the region to independently fund its needs without relying on the central government. (Yaqien *et al*., 2024).

However, in the period 2020-2023, national and global economic dynamics affected local tax revenues. The COVID-19 pandemic that occurred at the end of 2019 to 2021 had a significant impact on economic activity, which led to a decrease in potential tax revenue. Entering the economic recovery period in 2022-2023, several regions in East Java began to show improvement in financial performance. However, the difference in capacity between regions in managing resources and taking advantage of economic opportunities creates a gap in financial independence.

Tabel 1. IKF Classification By Level Of Government Level (National)

IKF Status 2020	Province	Prov (%)	District	District (%)	City	City (%)
1	10	30%	369	98%	64	70%
2	16	49%	8	2%	26	28%
3	7	21%	1	0,26%	2	2%
total	33	100%	378	100%	92	100%

Source: Supreme Audit Agency of Republic of Indonesia (BPK RI). 2020. Local Government Financial Report (LKPD) in 2020. Accessed on January 13, 2025 from https://www.bpk.go.id.

Based on the findings from the evaluation conducted by the Supreme Audit Agency of the Republic of Indonesia (BPK RI) 2021, in a study involving 503 local governments in Indonesia, it was stated that none of them achieved the status of Fiscal Independence Index (IKF) 4 (Very Independent). There are only 10 local governments or about 1.98% in Indonesia that are included in the IKF 3 (independent) category in terms of fiscal independence.

Directorate General of Financial Balance covering the years 2020 to 2023.in East Java reveals that the proportion of balance funds consistently surpasses that of local revenue (PAD). The average district/city PAD during 2020-2023 in East Java is Rp.41,971.79 billion. Meanwhile, the average balance fund for 4 years is Rp. 69,405.83 billion. The proportion of PAD to the balance sheet is only about 60.473 indicating that PAD only covers half of the Fiscal Balance Fund received. The amount of balancing funds compared to PAD shows the high dependence of regions on central transfers, which causes regions to become not independent. (DJPK Kemenkeu, 2025).

Based on data from the DJPK of East Java Province in 2020-2023, it shows that the percentage of capital expenditure has increased from 2020 by 63.75% to 2022 by 103.84%, but in 2023 the percentage of realization and capital expenditure budget decreased by 92.25%. It can be seen that from 2022 to 2023 there has been a noticeable decline in capital

expenditure, suggesting a decrease in the financial performance of local governments in their efforts to boost regional wealth. (DJPK Kemenkeu, 2025).

Based on prior studies conducted by Saraswati and Nurharjanti (2021) in 34 provinces in Indonesia, research on local taxes exerts a beneficial impact while also considering, local retribution, capital expenditure, and balance funds do not have a significant impact on regional financial independence. This study concentrates on the districts and cities of East Java, aiming to deliver a more thorough and detailed analysis, in contrast to previous studies that examine regions at the national level. This study can also yield more specific findings on the interplay between local taxes, equalization funds, and capital expenditures plays a crucial role in fostering regional financial independence. To better understand the direction of influence of the independent variables on the dependent variable, researchers incorporated regional economic growth and population as control variables. Given this context, they aim to carry out a study titled "The Effect of Local Taxes, Balance Funds, and Capital Expenditures on Regional Financial Independence in East Java Regional Governments from 2020 to 2023. ".

THEORETICAL FRAMEWORK AND HYPOTHESIS

Stewardship Theory

According to Donaldson & Davis (1991), Stewardship Theory is the behavior of a manager who acts in accordance with his responsibilities and tries to maximize all public affairs rather than his own interests, always being honest and having high integrity to others. Thistheorydescribes how a person works in organizing in an organization by upholding integrity and responsibility in accordance with organizational goals to be achieved (Sugiyanto & Musfirati, 2021). In this theory also describes the form of a close relationship between the satisfaction and success of an organization (Saraswati & Nurharjanti, 2021). The steward here is the government who will try to carry out and maximize its duties with the aim of the welfare of its people (Shoba & Fidiana, 2022). The public as a principal has the right to hold the government accountable for what has been done.

Regional Original Revenue (PAD)

Regional Original Revenue (PAD) refers to the income generated by local governments in line with regional regulations and established legal provisions. As a source of regional financing, PAD comes from various revenues, including local taxes, local levies, revenue from companies owned at the regional level, income generated through the management of distinct regional assets, and other lawful revenue streams. (Fuad & Hapsari, 2020). Based on Law Number 1 Year 2022, Article 1 paragraph (20), says that "Regional Original Revenue, hereinafter abbreviated as PAD, is regional revenue obtained from local taxes, local levies, the results of the management of separated regional assets and other legitimate regional original income in accordance with statutory regulations.

Local Tax

According to Law No. 1 Year 2022 Article 1 paragraph (21) explains that, "Local Taxes hereinafter referred to as Taxes are mandatory contributions to the Region owed by individuals or entities that are compelling based on the Law, with no direct reward and used for Regional purposes for the greatest prosperity of the people". Local taxes as part of the PAD play an important role in financing capital expenditures to improve public services and

community welfare. The capacity of local governments to deliver public services and enhance community welfare is evident in their Regional Original Revenue (PAD) (Taufiq et al., 2023). Local taxes are coercive and become one of the sources of local revenue (PAD) which aims to support the implementation of regional autonomy. The higher the tax received, the greater the PAD obtained (Situngkir *et al.,* 2020). The variable measurement can be formulated as follows (Nggilu et al., 2021)

$$PD = \frac{Local\ Tax}{Total\ Local\ Income}\ x\ 100\%$$

Balance Fund

According to Law No. 1 Year 2022 Article 1 paragraph (69) explains that, "Transfers to Regions, hereinafter abbreviated as TKD, are funds sourced from the APBN and are part of state expenditure allocated and channeled to the Regions to be managed by the Regions in order to fund the implementation of Government Affairs which are the authority of the Regions". Fiscal decentralization is a policy established by the central government to rectify the fiscal imbalance between its own apparatus and that of regional entities. This fund consists of Revenue Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK) as regulated in laws and regulations. The larger the funds transferred to the regions, the more it can be concluded that local governments are still not independent in regulating their autonomy, Meanwhile, if the transfer funds provided are low, the regions are independent in managing their regional affairs. The variable measurement can be formulated as follows (Saraswati & Nurharjanti, 2021):

$$DP = \frac{Balance\ Fund}{Total\ Local\ Income}\ x\ 100\%$$

Capital Expenditure

According to PP No 12 of 2019 Article 55 paragraph (3) concerning Regional Financial Management, states that "Capital expenditure as referred to in paragraph (1) letter b is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than 1 accounting period". According to Musgrave, quoted from Yaqie et al., (2024), the theory of Capital Expenditure and Economic Growth suggests that government spending on capital assets is essential for fostering long-term economic growth and improving public welfare. If the capital expenditure is large and a lot of infrastructure and facilities are built this will positively impact economic growth. Improvements in infrastructure and facilities are expected to increase regional economic growth (Heryanti *et al.,* 2019). The variable measurement can be formulated as follows (Saraswati & Nurharjanti, 2021) :

$$BM = \frac{Capital\ Expenditure}{Total\ Regional\ Capital\ Expenditure}\ x\ 100\%$$

Regional Financial Independence

According to Halim (2012) in the book Regional Financial Accounting, regional financial independence (fiscal autonomy) is the ability in which a region can stand without the help of other parties to manage local revenue in an effort to develop its regions such as public facility development programs, government activities and community services. The greater a region's level of independence, the more actively the community engages in contributing to local tax and levy payments. (Defitri, 2020). The variable measurement can be formulated as follows (Novindriastuti & Purnomowa, 2020) :

$$KKD = \frac{Realization\ of\ PAD}{Total\ Local\ Income}\ x\ 100\%$$

Total Population

According to Geatri (2024), residents refer to individuals, families or community groups residing in a specific region within the country's borders during a specific timeframe. According to BPS (2025), Residents are individuals who live in the territory of the Unitary State of the Republic of Indonesia (NKRI) for at least one year or plan to stay within that period, even though the initial duration of domicile is less than one year. The larger the population, the higher the level of demand and supply, which can provide benefits for various parties.

Regional Economic Growth

Economic growth refers to the expansion of economic activities within a society, leading to a rise in the output of goods and services. Increase inproduction is seen as an indicator of economic growth or development. Regional economic growth can be measured Using Gross Regional Domestic Product (GRDP), this reflects the overall value of goods and services generated within a region during a specific time frame.. GRDP describes the economic performance of an area and is used to determine how fast the area's economy is growing. As for the measurement of variables can be formulated as follows (Novitasari & Novitasari, 2019) :

$$PED = \frac{PDRB_t - PDRB_{t-1}}{PDRB_{t-1}} x\ 100\%$$

Conceptual Framework
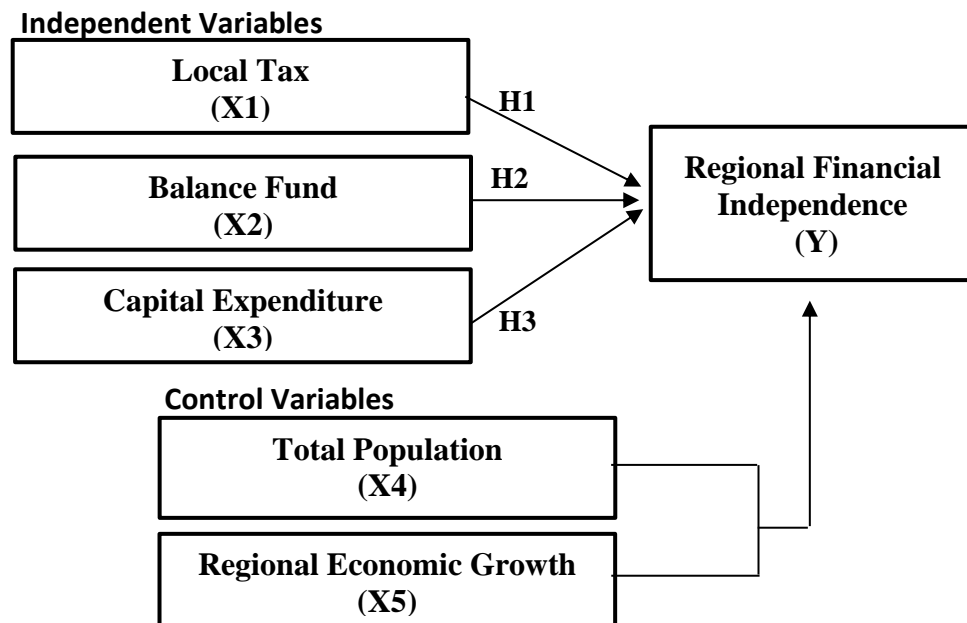
Independent Variables

Figure 1. The Conceptual Framework

Description:
H1 : Local Tax (PD) positively affects regional financial independence (KKD)
H2 : Balance Fund (DP) negatively affects regional financial independence (KKD)
H3 : Capital Expenditure (BM) positively affects regional financial independence (KKD)

The Effect Of Local Taxes (PD) On Regional Financial Independence (KKD)

In accordance with stewardship theory (Donaldson & Davis, 1991), local governments are responsible for maximizing their resources, including local tax revenues to achieve greater financial independence. Local taxes serve as a primary source of local revenue (PAD), representing a region's capability to independently finance its development and operational needs without fully relying on financial support from the central government. Local taxes serve as one of the primary sources of Regional Original Revenue (PAD), reflecting a region's capacity to finance its development and operational needs independently without fully depending on balance funds from the central government.

The greater the tax revenue received, the higher the resulting Public Administration Development (PAD) achieved (Situngkir et al., 2020). This implies that higher tax collections enable the region to fulfill its financial requirements independently, without relying on transfers from the central government, thereby elevating its financial independence. Consequently, improving local tax revenue emerges as a strategic cornerstone for strengthening fiscal autonomy.

The effect of local taxes on financial independence has been proven from previous studies such as the results of Saraswati & Nurharjanti research (2021), from the results of the study it was found that local taxes in 34 provinces in Indonesia for the period 2017-2019 enhanced regional financial independence positively. reinforced again by Novitasari & Novitasari research (2019), said that local taxes in East Java Province during the 2014-2019 period had a beneficial effect on the financial independence of the region. And supported by Febriayanti & Faris (2019), This suggests that local taxes contribute positively to the financial independence of both regency and city governments in East Java Province. during the period from 2015 to 2017.

H1: The Effect Of Local Taxes (PD) On Regional Financial Independence (KKD)

The Effect Of Balance Fund (DP) On Regional Financial Independence (KKD)

In stewardship theory (Donaldson & Davis, 1991), local governments have a responsibility to utilize these funds wisely and strategically to increase local financial capacity. The Balance Fund, comprising the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), is designed to promote fiscal equalization among regions and support local governments in fulfilling their autonomous functions.

However, a significant reliance on the balancing fund often undermines the region's financial independence. This situation contradicts the principles of effective stewardship, this encourages local governments to use these funds as foundational capital to boost local revenue (PAD) and reduce their dependence on the central government. When regional transfers are significant, it indicates that local governments have not yet achieved full autonomy in managing their own affairs. Conversely, if the transfer amounts are minimal, it indicates that the region is effectively managing its own operations independently.

The results of research by Machfud et al., (2020) prove that the balance fund negatively impacts regional financial independence in Aceh Province during the 2013-2018 period. These results suggest that the balance fund is a factor that can lower a region's level of financial independence. Research from Adha & Sidik (2023) also states that the The Balance Fund has a negative and significant impact on regional financial independence in Karawang Regency during the 2008-2022 period.

H2: The Effect Of Balance Fund (DP) On Regional Financial Independence (KKD)

The Effect of capital expenditure (BM) on regional financial independence (KKD)

In stewardship theory (Donaldson & Davis, 1991), local governments are responsible for allocating capital expenditure effectively, with the aim of increasing the economic potential of the region. With good infrastructure, such as roads, public facilities or transportation systems, regions can attract investment, increase economic activity and ultimately strengthen local revenue (PAD). Capital expenditure is closely related to the investment given to local governments to carry out Regional Development. If the capital expenditure is large and a lot of infrastructure and facilities are built, it will have a positive effecton economic growth (Heryanti et al., 2019).

The development and improvement that occurs reflects that the area has achieved a common desire, namely the prosperity of the community. In other words, increased regional growth funds that the region has carried out its own autonomous affairs, so that the level of financial independence of the region is also getting better. However, if the local government has not been able to develop its area and spend its income to the maximum, it can be said that the area cannot be said to be financially independent.

Previous research has demonstrated the influence of capital expenditure on regional financial independence has been significant. In particular, researcher Defitri (2020) discovered that between 2016 and 2017, capital expenditure had a positive effect on the financial autonomy of West Sumatra province.

H3: The Effect Of Capital Expenditure (BM) On Regional Financial Independence (KKD)

RESEARCH METHOD

This type of research uses quantitative descriptive analysis. According to Sugiyono, (2018), quantitative methods are grounded in the philosophy of positivism and are employed to investigate specific populations or samples. These methods involve collecting data through research instruments and analyzing that data using quantitative or statistical techniques. The primary goal is to describe patterns and test predetermined hypotheses. This study uses 3 independent variables, 1 dependent variable and 2 control variables. In this study, the focus is on regional financial independence as the dependent variable, while the independent variables encompass local taxes, balance funds, and capital expenditures. Additionally, the control variables consist of regional economic growth and regional retribution. The study focused on the Budget Realization Reports (APBD) from all districts and cities in East Java. Based on the data that has been obtained, researchers conducted research on all districts / cities in East Java Province totaling 38 districts/cities (29 districts and 9 cities). From the population to be studied, the research was carried out in the period 2020 to 2023 (4 periods). So, the sample used for this study was 152 observation data

This sampling technique is to use non-random or nonprobability sampling techniques, namely by means of saturated samples. According to Sugiyono (2018), This sampling technique entails utilizing the entire population as the sample, so the entire population is utilized and examined as the research object. The data collection methods used are documentation and literature study. This study employs panel data, which merges time-series data—tracking changes over time—with cross-sectional data that examines

variations across different individuals. The data utilized in this study is sourced from external secondary data provided by reputable institutions, specifically in the form of Budget Realization Reports (APBD) for the districts and cities in East Java, spanning the years 2020 to 2023 obtained sourced from the official website of the Directorate General of Fiscal Balance, Republic of Indonesia. (http://www.djpk.kemenkeu.go.id) and GRDP data and population obtained from the East Java BPS website (https://jatim.bps.go.id/id).

RESULT AND DISCUSSION

RESULTS
Descriptive Analysis

Table 2. Descriptive Statistical Results

Variables	Minimum	Maximum	Mean	Std. Deviation
Local Tax	1,19	47,51	7,82	8,52
Balance Fund	17,49	95,03	59,80	12,45
Capital Expenditure	5,71	73,46	14,18	6,78
Total Population	132.434	2.893.698	1.079.676,75	666.842,05
Regional Economic Growth	462.2,60	458.930,70	45.229,47	70587,95
Regional Financial Independence	7,40	60,45	19,30	9,18

Source: Processed Data, 2025

Table 2 above presents the total data utilized in this study, namely 152 research objects. In the first variable, namely local taxes, the lowest value of 1.19 belongs to Pasuruan Regency in 2021 and the highest local tax of 47.51 belongs to Surabaya City in 2023. The average value of local taxes is 7.82, this indicates that the average local tax in districts/cities in East Java Province during 2020-2023 was accompanied by a standard deviation of 8.52. The second variable, the balance fund, recorded its lowest value at 17.49 in Pasuruan Regency in 2021, while the highest value was 95.03 in Bojonegoro Regency in 2023. The average balance fund was 59.80, with a standard deviation of 12.45, illustrating the distribution of the balance fund allocations across districts/cities in East Java Province during the period 2020-2023.

The third variable, namely capital expenditure has the lowest value of 5.71 belongs to Jember Regency in 2020 and the highest capital expenditure of 73.46 belongs to Bojonegoro Regency in 2021. The average capital expenditure value is 14.18, this indicates that the average capital expenditure across districts / cities in East Java Province in 2020-2023, with a standard deviation of 6.78. The fourth variable, namely population, the lowest value is 132,434 for Mojokerto City in 2020 and the highest population is 2,893,698 for Surabaya City in 2023. The average value of population is 1,079,676.75, this shows that the average population in districts / cities in East Java Province in 2020-2023, with a standard deviation of 666,842.05.

The fifth variable, namely regional economic growth, the lowest value is 4,622.60 for Blitar City in 2020 and the highest regional economic growth is 458,930.70 for Surabaya City in 2023. The average value of regional economic growth is 45,229.47, this shows that the average regional economic growth in districts / cities in East Java Province in 2020-2023, with a standard deviation of 45,229.47. Finally, the sixth variable, which pertains to regional financial independence, recorded the lowest value. 7.40 has Sampang Regency in 2021 and the highest regional financial independence of 60.45 has Surabaya City in 2022. The average value of regional financial independence is 19.30, This illustrates the average level of

financial independence among districts and cities in East Java Province from 2020 to 2023., with a standard deviation of 9.18.

Classical Assumption Test

Normality Test

Table 3. Normality Test Results

Variables	Asymp. Sig. (2-tailed)	Description
Unstandardized residual	0,239	Normal

Source: Processed Data, 2025

According to the data presented in Table 3, the study model effectively illustrates both the independent and dependent variables. a normal distribution. The significance probability value is 0. 239, which exceeds the 5% (0. 05) threshold. Therefore, the data meets the necessary criteria and successfully passes the normality test.

Heteroskedastivity Test

Table 4. Glacier Test Results

Variable	Sig.	Conclusion
Local Tax	0.375	No Heteroscedasticity
Balance Fund	0.016	Heteroscedasticity Occurs
Capital Expenditure	0.563	No Heteroscedasticity
Total Population	0.210	No Heteroscedasticity
Regional Economic Growth	0.124	No Heteroscedasticity

Source: Processed Data, 2025

From the test results, it can be concluded that among the five variables examined, only the balance fund variable exhibits heteroscedasticity issues, while the other variables do not show any signs of heteroscedasticity.

Multicollinearity Test

Table 5. Multicollinearity Test Results

Variabel	Collinearity Statistics		Kesimpulan
	Tolerance	VIF	
Local Tax	0,217	4,618	No multikoliniearitas
Balance Fund	0,675	1,481	No multikoliniearitas
Capital Expenditure	0,924	1,082	No multikoliniearitas
Total Population	0,553	1,809	No multikoliniearitas
Regional Economic Growth	0,163	6,119	No multikoliniearitas

Source: Processed Data, 2025

Based on the results presented in Table 5, it can be concluded that all variables have a Tolerance value greater than 0. 10. This indicates that there is no correlation between the variables. While the value of VIF (*Variance Inflation Factor*), in this variable also shows the same thing there is no one independent variable and control variable that has a VIF value of more than 10. Thus, it can be concluded that there is no multicollinearity between variables in the regression model.

Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Results

Variabel	*Unstandardized Coefficients*	
	B	Std. Error
(Constant)	18,680	1,750
Local Tax	0,768	0,069
Balance Fund	-0,110	0,027
Capital Expenditure	0,074	0,042
Total Population	-8,643E-007	0,000
Regional Economic Growth	2,334E-005	0,000

Source: Processed Data, 2025

The equation model that can be written from these results is in the form of the following equation:

Y = 18,680 + 0,763 X1 – 0,110 X2 + 0,074 X3 – 8,643E-007 X4 + 2,334E-005 X5 + e

From the form of the regression equation above, it can be explained that:

1. The constant (α) = 18.680 represents the baseline value, meaning that if all independent variables are set to zero, the dependent variable that composes regional financial independence (Y) is equal to 18.680.
2. Coefficient X1 = 0.763, this indicates that local tax variables are positively correlated with the financial independence of the region. (Y). This implies that a 1% increase in local taxes will raise regional financial independence by 0.763.
3. Coefficient X2 = -0.110, It suggests that the balance fund is inversely related to regional financial independence (Y). his means that a 1% increase in the balance fund will reduce regional financial independence by -0.116.
4. Coefficient X3 = 0.074, It shows that capital expenditure is positively correlated with regional financial independence (Y). This implies that a 1% increase in the capital expenditure variable will result in, it will increase regional financial independence by 0.074.
5. Coefficient X4 = -8.643E-007 or -0.0000008643, suggests that the population variable has an inverse relationship with the region's financial independence (Y). This indicates that if the number of residents were to rise by 1%, it will decrease regional financial independence by -0.0000008643.
6. Coefficient X4 = 2.334 E-005 or 0.00002334, shows that regional economic growth fosters a strong connection with regional financial autonomy (Y). This means that, if the regional economic growth variable is increased by 1%, it will increase regional financial independence by 0.00002334.
7. Standard error (ε) indicates the error rate of the confounders.

Linear Coefficient Of Determination (R2) Analysis

Table 7. Result Of Linear Coefficient Of Determination (R2)

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,934[a]	0,872	0,867	3,344

Source: Processed Data, 2025

As indicated in Table 7, the Adjusted R Square value is 0. 867, which suggests that the independent and control variables explain 86. 7% of the variation of the variation in regional financial independence. The remaining 13. 3% is attributed to other factors or variables not addressed in the research model.

Hypothesis Testing
Partial significance Test (t-test)

Table 8. Partial significance Test (t-test)

Variable	t_{count}	Sig.	Conclusion
Local Tax	11,198	0,000	H_1 Accepted
Balance Fund	-4,126	0,000	H_2 Accepted
Capital Expenditure	1,770	0,079	H_3 Rejected
Total Population	-1,575	0,118	H_4 Rejected
Regional Economic Growth	2,448	0,016	H_5 Accepted

Source: Processed Data, 2025

Based on the data that has been obtained from the results of t_{table} in this study as follows:

Formula for finding t_{table} = (α/2; n-k-1) = (0,05/2; 152-5-1) = (0,025; 146) = 1,97635
Therefore, based on Tabel 8 above describes the output of the t test which shows the following results:

1. Considering the findings from the T test, the value of t_{count} of local taxes is 11.198, while t_{table} value is 1.97635 with a significance value of 0.000. Because t_{count} (11.198) > t_{table} (1.97635) it can be concluded that H_1 It is widely accepted that local taxes play a crucial role in enhancing regional financial independence..

2. According to the results of the T-test, the value of t_{count} the balance fund is -4.126, while t_{table} value is 1.97635 with a significance value of 0.000. Because t_{count} (-4.126) < -t_{table} (-1.97635) it can be concluded that H_2 It is acknowledged that the balance fund plays a significant role in promoting regional financial independence.

3. According to the results of the T-test, the value of t_{count} the capital expenditure is 1.770, while value t_{table} value is 1.97635 with a significance value of 0.079. Because t_{count} (1.770) < t_{table} (1.97635) it can be concluded that H_3 The assertion that capital expenditure significantly impacts regional financial independence is difficult to accept.

4. According to the results of the T-test, the value of t_{count} the population is -1.575, while value t_{table} is 1.97635 with a significance value of 0.118. Because t_{count} (-1.575) > -t_{table} (-1.97635) it can be concluded that H_4 which states that the number of residents has a significant influence on the financial independence of the region is unacceptable.

5. According to the results of the T-test, the value of t_{count} the regional economic growth of 2.448, while value t_{table} is 1.97635 with a significance value of 0.016. Because t_{count} (2.448) > t_{table} (1.97635) it can be concluded that H_5 It is acknowledged that regional economic growth has a significant impact on the financial independence of the region.

Discussion
The Effect of local taxes (PD) on regional financial independence (KKD)

According to Mardiasmo (2012), Local taxes are required contributions set by local governments for individuals or entities within their jurisdiction, and they are collected without any direct compensation with the proceeds used to fund public services and regional development. The degree of regional fiscal independence largely hinges on the efficient management of revenue sources, including local taxes. By optimizing tax revenues, local governments can increase PAD which is then used to finance various needs, such as infrastructure, public services, and other development programs. This will strengthen regional fiscal autonomy and provide greater flexibility in determining development policies in accordance with local needs. The greater the local tax revenue, the higher the resulting PAD, so that the optimization of local taxes is a major factor in increasing regional financial independence

The findings from the data analysis conducted an overview of the districts and cities in East Java Province from 2020 to 2023 reveal that local taxes play a crucial role in enhancing regional financial independence. This underscores the significant positive impact that local taxes have on the financial capabilities of these regions to finance their development and operate independently, minimizing reliance on central government transfers. The results of this study are consistent with earlier research conducted by Saraswati & Nurharjanti, (2021) showing that local taxes in 34 provinces in Indonesia in the 2017-2019 period have a positive influence on regional financial independence. Similar findings wer also revealed by Novitasari & Novitasari, (2019), discovered that local taxes in East Java Province from 2014 to 2019 positively influenced the region's financial independence. In addition, research conducted by Febriayanti & Faris, (2019) corroborates these results by stating that local taxes contribute positively to financial independence of district and city governments in East Java Province during the period from 2015 to 2017..

The Effect of Balance Fund (DP) on regional financial independence (KKD)

Mardiasmo (2012) explains that equalization funds serve as a mechanism for transferring financial resources from the central government to local authorities., thereby supporting the activities conducted by these local authorities. Local governments have the responsibility to manage funds effectively and strategically to increase regional financial capacity. The Balancing Fund, which encompasses the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH), serves to promote fiscal equity between regions and supporting the implementation of regional autonomy. With a strong PAD, regions gain greater flexibility in formulating development policies without relying excessively regarding the fiscal policies implemented by the central government. Ultimately, the level of dependence on Balance Fund reflects the degree to which a region is capable of managing its finances independently. High dependence on transfer funds may indicate low regional fiscal independence.

The data analysis conducted on districts and cities in East Java Province for the period from 2020 to 2023 reveals that the balance fund plays a significant role in enhancing regional financial independence. This indicates that regions possessing substantial balancing funds often exhibit a reduced level of financial independence. Conversely, if a region receives a smaller balancing fund, this can contribute to an increase in the region's financial independence. The results of this study are consistent with the research carried out by

Machfud et al. (2020), which indicates that the Balance Fund negatively affects regional financial independence in Aceh Province during the period from 2013 to 2018. This finding indicates that the Balance Fund acts as a factor that may diminish a region's level of independence. Similar results were also found in the research of Adha & Sidik, (2023), the findings indicated that the Balance Fund had a substantial negative impact on regional financial independence in Karawang Regency between 2008 and 2022.

The Effect of capital expenditure (BM) on regional financial independence (KKD)

As noted by Yaqie et al. (2024), Musgrave posits that the theory of Capital Expenditure and Economic Growth suggests that government capital expenditure functions as a form of investment in long-term assets that are important for economic growth and improving people's welfare. Local governments are responsible for allocating capital expenditure optimally to encourage regional economic growth. Regional financial independence is highly dependent on how local governments manage revenue and allocate budgets effectively. If a region can support its development and operations independently, without heavily depending on transfers from the central government, then this reflects a good level of fiscal independence. Improved infrastructure and public services are also indicators that local governments have a good ability to manage finances to encourage economic growth.

The analysis of data conducted on the districts and cities of East Java Province from 2020 to 2023 indicates that capital expenditure does not have a significant impact regional financial independence, and thus, this hypothesis cannot be accepted. This shows that an increase in capital expenditure has not directly increased regional fiscal independence. In other words, an increase in capital expenditure does not always correspond directly to a rise in regional own-source revenue (PAD), This, in turn, influences the degree of financial independence at the regional level. This is likely due to the less targeted allocation of capital expenditure, which tends to be consumptive in nature, thereby reducing the efficiency and productivity of the funds utilized. Therefore, capital expenditure management strategies need to be optimized so that they contribute more to regional financial independence. The results of this study are consistent with the research conducted by Yaqien et al. (2024), which indicates that capital expenditures in the regencies and cities of Java Island from 2016 to 2023 reflect similar trends has no effect and is not partially significant. In addition, research by Saraswati & Nurharjanti (2021) proves that capital expenditure in all provinces in Indonesia in 2017-2019 has no significant effect on regional financial independence. And similar results were also found in the study penelitian Affifah & Rahayu, (2021) that Regency / City in West Java 2015-2018 on capital expenditure has no influence on TKKD.

The Effect of Population and regional economic growth as a control variable

According to Geatri (2024), population refers to individuals, families or community groups living in an area within the country's borders at a certain period. The existence of the population is often associated with aspects of identity, growth, distribution, migration and welfare in various aspects such as politics, economy, social, culture, religion and the environment. A large population can affect regional financial independence, especially in terms of increasing Regional Original Revenue (PAD). The larger the population, the higher the potential for regional tax and levy revenues, which in turn can strengthen regional revenue sources. Population growth in a region directly impacts the increasing needs and

demands of the community for various goods and services. An increase in population drives up demand

The data analysis conducted on the districts and cities of East Java Province from 2020 to 2023 reveals that population size does not significantly influence regional financial independence. Consequently, this hypothesis is not supported, indicating that population factors do not play a meaningful role in determining the financial autonomy of the regions, possibly due to other factors such as income, economic structure and tax effectiveness. In addition, a high population can also increase the burden of local government spending, such as the need for infrastructure, health services and education. If not balanced with good fiscal management, population growth can actually hamper regional financial independence due to increased spending needs without being accompanied by an optimal increase in revenue.

Economic growth refers to the expanding economic activity within a society, which in turn results in a rise in the creation of products and services. One widely recognized measure of economic growth at the regional level is the Gross Regional Domestic Product (GRDP). The level of economic growth can be calculated by comparing GRDP in a year with GRDP in the previous year based on constant prices (Novitasari & Novitasari, 2019). The economic growth of a region has an important role in increasing regional financial independence. Along with economic development, productivity and per capita income also increase, this contributes to enhancing the potential for Regional Original Revenue (PAD).With greater PAD, local governments can be more independent in financing development and providing public services, while decreasing reliance on balancing funds from the central government.

Meanwhile, the findings from the research on regional economic growth indicate that there is a notable impact on regional financial independence. This suggests that regional economic growth positively influences financial autonomy., which means that regions can be more independent in financing their fiscal needs without relying on central government transfers. This research is underpinned by a study carried out by Reza & Sopiana (2023), the findings revealed that per capita Gross Regional Domestic Product (GRDP) plays a significant role in influencing the financial independence of Banjarmasin City..

CONCLUSIONS

The purpose of this study was to identify the independent variables influencing the level of financial independence among district and city governments in East Java Province from 2020 to 2023. From 2020 to 2023, local taxes have played a vital and beneficial role in enhancing regional financial independence in the districts and cities of East Java Province. The balance fund has a negative and significant impact on regional financial independence in districts/cities of East Java Province from 2020 to 2023. Capital expenditure does not significantly affect the financial independence of districts and cities in East Java Province between 2020 and 2023. The total population, as a control variable, does not notably affect the financial independence of districts and cities in East Java Province from 2020 to 2023. Regional economic growth, as a control variable, It has a noteworthy and positive impact on the financial independence of regions within various districts and cities. East Java Province between 2020 and 2023.

Drawing from the insights gained through the research and discussions, the researchers provide suggestions to be used as recommendations. The results can serve as a reference by using samples from areas outside districts/cities in East Java Province and different time periods. Additionally, future research can include other variables related to regional financial independence, such as the effectiveness of budget management, taxpayer compliance levels, and fiscal transparency. The findings of this study are expected to provide valuable insights for the government in formulating strategies to optimize local tax revenues, manage balance funds as foundational capital for boosting local revenue (PAD), and decreasing dependence on the central government. Furthermore, the research aims to facilitate the effective allocation of capital expenditures to improve the quality of regional infrastructure. By achieving this, reliance on central government funding can be significantly reduced, enabling district and city governments in East Java Province to attain financial independence a key objective of implementing regional autonomy. The community aims to enhance awareness and encourage compliance in the payment of local taxes, a key source of local revenue (PAD) and has an important role in regional development. In addition, active participation in monitoring the use of local budgets is also needed so that capital expenditures and balance funds can be optimally managed, so as to improve mutual prosperity and encourage regional economic growth.

ACKNOWLEDGMENTS

REFERENCES

Adha, A. A., & Sidik, S. (2023). Jurnal Mirai Management Pengaruh Pendapatan Asli daerah Dan dana Perimbangan Terhadap Kemandirian Keuangan Daerah Pada Kabupaten Karawang Tahun 2008-2022. *Jurnal Mirai Management*, *8*(2), 2023–2199.

Affifah, R. A., & Rahayu, S. (2021). PENGARUH BELANJA MODAL, DANA ALOKASI KHUSUS (DAK), DAN PENDAPATAN ASLI DAERAH (PAD) TERHADAP TINGKAT KEMANDIRIAN KEUANGAN DAERAH KABUPATEN DAN KOTA PADA PROVINSI JAWA BARAT TAHUN 2015-2018. *E-Proceeding of Management*, *8*(2), 1020–1029.

BPK RI. (2021). *LAPORAN HASIL PEMERIKSAAN ATAS LAPORAN KEUANGAN PEMERINTAH PUSAT TAHUN 202*. http://scioteca.caf.com/bitstream/handle/123456789/1091/RED2017-Eng-8ene.pdf?sequence=12&isAllowed=y%0Ahttp://dx.doi.org/10.1016/j.regsciurbeco.2008.06.005%0Ahttps://www.researchgate.net/publication/305320484_SISTEM_PEMBETUNGAN_TERPUSAT_STRATEGI_MELESTARI

Defitri, S. Y. (2020). Pengaruh Belanja Modal Dan Belanja Pegawai Terhadap Tingkat Kemandirian Keuangan Daerah. *Fokus Bisnis : Media Pengkajian Manajemen Dan Akuntansi*, *19*(2), 107–119. https://doi.org/10.32639/fokusbisnis.v19i2.476

DJPK Kemenkeu. (2025). *LRA Jatim 2020-2024*. Djpk.Kemenkeu.Go.Id. https://djpk.kemenkeu.go.id/

Febriayanti, F., & Faris, M. (2019). Pengaruh Pajak Daerah dan Retribusi Daerah terhadap

Kemandirian Keuangan Daerah pada Pemerintah Kabupaten/Kota Di Provinsi Jawa Timur Tahun 2015-2017. *Jurnal Ilmiah Akuntansi Peradaban*, *5*(2), 162–175.

Fuad, K., & Hapsari, N. N. (2020). Pendapatan Asli Daerah di Kota Semarang dan Beberapa Faktor yang Memepengaruhinya. *Jurnal Riset Akuntansi Terpadu*, *13*(2), 191. https://doi.org/10.35448/jrat.v13i2.7433

Geatri, P. (2024). PENGARUH PENDAPATAN ASLI DAERAH, DANA PERIMBANGAN, BELANJA PEGAWAI, DAN JUMLAH PENDUDUK TERHADAP KEMANDIRIAN KEUANGAN DAERAH. *Penambahan Natrium Benzoat Dan Kalium Sorbat (Antiinversi) Dan Kecepatan Pengadukan Sebagai Upaya Penghambatan Reaksi Inversi Pada Nira Tebu*.

Halim, A. (2012). *Akuntansi Keuangan Daerah* (4th ed.). Salemba Empat.

Heryanti, C. D., Wahidahwati, W., & Suryono, B. (2019). Pengaruh Pendapatan Asli Daerah, Dana Perimbangan Dan Pertumbuhan Ekonomi Terhadap Kinerja Keuangan Pemerintah Kabupaten/Kota Di Provinsi Jawa Timur. *Jurnal Analisa Akuntansi Dan Perpajakan*, *3*(1). https://doi.org/10.25139/jaap.v3i1.1721

Machfud, Asnawi, & Naz'aina. (2020). *Kemandirian Keuangan Daerah Di Kabupaten / Kota*. *5*(1), 14–31.

Mardiasmo. (2012). *Perpajakan*. ANDI.

Nggilu, F., Sabijono, H., & Tirayoh, V. (2021). Pengaruh Pajak Daerah dan Retribusi Daerah terhadap Kemandirian Keuangan Daerah pada Pemerintah Kabupaten/Kota di Provinsi Gorontalo. *Jurnal Berkala Ilmiah Efisiensi*, *16*(4), 623–635.

Novindriastuti, I., & Purnomowa, N. H. (2020). Analisis Faktor-faktor Yang Mempengaruhi Kemandirian Keuangan Pemerintah Daerah Sebagai Penguatan Desentralisasi Fiskal (studi Pada Pemerintah Daerah Provinsi Di Indonesia Tahun 2014-2018). *Jurnal Mutiara Madani*, *08*(1), 70–91.

Novitasari, M., & Novitasari, L. (2019). Pengaruh Pajak, Retribusi, Dbh, Belanja Modal, Dan Pertumbuhan Ekonomi Terhadap Kemandirian Daerah. *Inventory: Jurnal Akuntansi*, *3*(2), 174. https://doi.org/10.25273/inventory.v3i2.5244

Reza, M., & Sopiana, Y. (2023). Analisis PDRB Perkapita, Investasi Pemerintah, dan Inflasi terhadap Kemandirian Keuangan Daerah Kota Banjarmasin. *JIEP: Jurnal Ilmu Ekonomi Dan Pembangunan*, *6*(1), 477–488.

Roychana, H. (2022). ANALISIS KEMANDIRIAN KEUANGAN DAERAH KABUPATEN BANTUL TAHUN ANGGARAN 2016-2020. *Inovasi*, *22*, 4321–4333. https://doi.org/10.29264/jinv.v13i2.2461

Saraswati, N. P., & Nurharjanti, N. N. (2021). Pengaruh Pajak Daerah, Retribusi Daerah, Belanja Modal dan Dana Perimbangan Terhadap Kemandirian Keuangan Daerah. *Business Management, Economic, and Accounting National Seminar*, *2*, 51–64.

Shoba, A. N., & Fidiana. (2022). Kemandirian Keuangan Daerah Berdasarkan Pendapatan Asli Daerah, Dana Bagi Hasil, Pertumbuhan Ekonomi. *Jurnal Ilmu Dan Riset Akuntansi*, *11*(5), 107–122. https://jurnalmahasiswa.stiesia.ac.id/index.php/jira/article/view/4532

Situngkir, A., Hidayah Napitupulu, I., & Muthiasafitri, I. (2020). Kontribusi Pajak Daerah Dan Retrubusi Daerah Terhadap APBD Kabupaten/Kota Di Provinsi Sumatera Utara. *Jurnal Mutiara Akuntansi*, *88*(2), 88–98.

Sugiyanto, H. S., & Musfirati, A. (2021). Pengaruh Dana Alokasi Umum, Dana Alokasi Khusus, Dana Bagi Hasil, Dan Dana Keistimewaan Terhadap Tingkat Kemandirian Keuangan Daerah. *Substansi: Sumber Artikel Akuntansi Auditing Dan Keuangan Vokasi*, *5*(1), 20–36. https://doi.org/10.35837/subs.v5i1.1382

Sugiyono, P. D. (2018). *METODE PENELITIAN BISNIS Pendekatan Kuantitatif, Kualitatif, Kombinasi dan R&D* (S. Y. Suryandari (ed.); Edisi ke-3). Alfabeta.

Taufiq, I., Darmanto, & Wikan Budi Utami. (2023). Pengaruh Pajak Daerah, Retribusi Daerah, dan Dana Perimbangan Terhadap Belanja Modal di Provinsi Jawa Barat Tahun 2020-2022. *Jurnal Ilmiah Keuangan Akuntansi Bisnis*, *2*(3), 404–411. https://doi.org/10.53088/jikab.v2i3.64

Undang-Undang Nomor 1 Tahun 2022. (2024). *Undang-Undang Nomor 1 Tahun 2022 Tentang Hubungan Keuangan Antara Pemerintah Pusat dan Pemerintahan Daerah*. *3*(1), 8–14. https://doi.org/10.31957/bhjpi.v3i1.3855

Yaqien, M. G. A., Sutjipto, H., Desmawan, D., & Harahap, M. N. (2024). Analisis Kemandirian Keuangan Daerah pada Kabupaten dan Kota di Pulau Jawa Tahun 2016 – 2023. *Jurnal Ekonomi, Manajemen Dan Perbankan*, *10*, 139–152.