

REGIONAL FINANCIAL MANAGEMENT AND INDEPENDENCE PROJECTION WITH THE ISSUANCE OF THE HKPD LAW

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ABSTRACT

The achievements of fiscal decentralization over the past 20 years have shown positive performance, but the central fiscal synergy with the regions has not been optimal. The issuance of Law No.1/2022 concerning Central and Regional Financial Relations (HKPD) encourages creative and sustainable financing based on cooperation through the Funding Synergy scheme. This study aims to examine financial management and project Local Own Revenue (PAD) referring to the HKPD Law. Observation of statistical data using Regional Financial Reports and BPS. The least square method is used for forecasting and projection of PAD. The results of the analysis of district/city PAD during the Covid-19 period in 2020-2021 generally decreased, but PAD grew 5% exceeding the Balancing Fund which grew 2% during 2017-2021. The results of forecasting PAD nationally for 2024 referring to the HKPD Law show a positive trend with a steep slope so that the level of independence in general will increase in class, except for regions with a Regional Financial Independence Ratio (RKKD) of 0-18%; 25-38% and 50-63% estimated level of independence has not changed. The results of an empirical study in Kebumen, RKKD 21% (very low), decentralization 18% (poor category), effectiveness of PAD > 100% (effective), and local tax revenues and fees have a positive trend so that PAD will increase rapidly. To support the implementation of the HKPD Law, regional readiness is needed by encouraging the economy and investment, identifying tax options, extensifying the tax base, reducing administration and compliance costs and harmonization with other laws and regulations,

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1. INTRODUCTION

The implementation of regional autonomy and fiscal decentralization in Indonesia has been running for more than two decades since 2001. Various achievements over the past 21 years have shown positive performance, however, the fiscal synergy between the center and the regions has not been optimal. Central and regional financial relations are marked by balancing fund assistance that includes the General Allocation Fund (DAU), the Special Allocation Fund (DAK) and the Revenue Sharing Fund (DBH). The ratio between the amount of Regional Original Income (PAD) and the amount of balancing funds and regional loans shows the high level of regional financial independence. One of the significant sources of PAD is regional taxes, the collection of this tax is regulated by Law Number 28 of 2009 concerning Regional Taxes and Regional Retribution (PDRD) [1]. Furthermore, according to Government Regulation of the Republic of Indonesia (2015) Number 9 concerning Regional Government (revision of Law No.22/1999), local governments can optimize resources to accelerate development [2].

The allocation of balancing funds is generally based on expenditure aspects, but the less attention to the ability of the PAD obtained. The results in the Regional Government being less than optimal in exploring regional tax potential, but tends to always propose an increase in transfer funds from the center. If this condition continues, the APBD posture will create a "big peg rather than a pillar" or often called the flypaper effect, namely the composition of the APBD that is financed more by balancing funds from the center than the PAD revenue itself. The quality of regional autonomy illustrates the level of independence of a region, the more regional needs that can be financed by PAD, the more independent the area is in terms of regional finance [3].

The State Budget posture in 2022 was Rp. 2,714.2 trillion, of which Rp. 945.8 trillion was allocated to 82 Ministries/Agencies and Rp. 769.6 trillion for Transfers to Regions and Village Funds (TKDD). Tax revenue in 2020 was IDR 1,070 trillion, 19.7% lower than in 2019 due to the economic slowdown and the existence of a tax stimulus for the business world. State revenue in 2019 reached IDR 1,960.6 trillion, in

2020 it shrank 16.7% to IDR 1,633.6 trillion. Realized year 2020 revenue was IDR 599.6 trillion lower than the target of the State Revenue and Expenditure Budget (APBN). State revenue for 2021 was IDR 1,735.7 trillion and in Year 2022 the state budget will increase by 6.3% to IDR 1,846.1 trillion. The Minister of Finance of the Republic of Indonesia, Sri Mulyani said the increase was from taxes of IDR 1,510.0 trillion and Non-Tax State Revenue (PNBP) of IDR 335.6 trillion [4].

The realization of state revenues is dominated by tax revenues, both collected by the central and regional governments. However, regional tax revenues nationally are still low, resulting in income inequality between the center and the regions. Out of 509 regencies/cities, the majority depend on transfers from the center with the accounts for 66.0% of the total regional revenue. In accordance with the general provisions of the Government Regulation of the Republic of Indonesia Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is a system of proportional financial sharing in the framework of fiscal decentralization funding by taking into account regional conditions and potential [5]. Referring to the formula of the Central Bureau of Statistics (BPS), the average level of independence for districts/cities is in the "Low" category. The ratio of Regional Original Income (PAD) to regional income in 2021 was only 25.7% and categorized as "Very Low").

The Review results of the Supreme Audit Agency of the Republic of Indonesia from 503 local governments, 443 regions (88.07%) are categorized as not independent. In fact, 468 regional governments (93.04%) had not changed their category from 2013 to the 2020 Covid-19 period. The regional financial independence category consists of four levels, namely; very low, low, independent, and very independent. Out of a total of 542 regions, only Badung Regency in the province of Bali with the "very independent" level. Regional fiscal independence index (IKFD) in Badung regency was 0.8347, it means that 83.47% of regional spending can be funded by its own PAD [6]. To reduce horizontal and vertical inequalities for equal distribution of services and welfare, a redesign of the management of transfers to the regions is carried out to reduce disparities and encourage an increase in the quality of efficient and effective spending, through performance-based Transfers to Regions (TKD).

The government and the house of representatives have issued Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments that take effect two years after promulgation (2024). The purpose of the HKPD Law is to simplify the types of regional taxes and fees to save administrative costs and collection costs (compliance costs) to strengthen regional financial performance and spending [7]. The Minister of Finance Sri Mulyani explained, "The new policy package regarding PDRD accompanied by regional commitments to improve the quality of tax administration will be able to increase regional financial capacity and fiscal space". In the simulation, it is estimated that regional tax revenues and district/city levies will increase by 50% from IDR 61.2 trillion to IDR 91.3 trillion [4].

According to data from the Ministry of Finance, of the 10 most independent regions in 2021, the regional tax contribution to PAD is more than 50%. These areas are Badung Regency, Surabaya City, Semarang, South Tangerang, Kab. Tangerang, Tangerang City, Depok, Bekasi, Kab. Bekasi, and Batam City. The contribution of local taxes to PAD in Badung Regency reached 73.1%, South Tangerang City 86.1% and Surabaya City 75.7%. Whereas in the 10 regencies/cities that are least independent, the contribution of PAD to regional income is below 1% [8]. Aslim and Neyapti [9] state that an increase in optimal tax rates leads to increased fiscal decentralization to compensate for welfare losses from a decrease in optimal regional tax efforts. Therefore, welfare and income distribution improve in FD at a moderate level not an extreme level.

Generally, local tax revenues are mostly contributed by Land and Building Tax or Property Tax (PBB). Rahmadiani [10] states that the number of taxpayers, land and building area, and the Sales Value of Taxable Objects (NJOP) have a significant effect on individual PBB revenues. The other sources PAD are levies consisting of levies for business services, general services and certain permits. Market levies are included in the category of general services with quite large contribution to PAD. The market revitalization program is expected to increase fees. The revitalization of 10,000 traditional markets throughout Indonesia is a central program to strengthen the people's economy. The number of target markets that have been revitalized since 2015-2019 has reached 5,248 markets with a budget of IDR 12.47 trillion [11]. Aziz et al. [12] found that budget evaluation and clarity of budget targets have a significant effect on regional financial management performance.

Mufidah et al. [13] showed that after the market revitalization in Bogor City, there was an increase in fees from kiosk management and rental fees of 6.98% and management of cleanliness, security and order each increased by 17.7%. Shara's research [14] reveals that the clarity of budget targets has a significant positive effect on the performance of regional financial management in Medan City [15]. Kim et al. [16]

found that the level of regional income variation was positively correlated with government policies such as education services, employment, infrastructure and information networks. Zulkieflimansyah et al. [17] stated that there was an increase in PAD receipts from paying vehicle taxes in NTB. It shows that motor vehicle tax is an option to increase PAD. Research conducted by Wijaya et al. [18] shows that other income contributed the most to the total PAD of West Kutai Regency during the 2014-2018 year, although it fluctuated, it still has a positive trend.

Mufidah et al. [13], Ermakova et al. [15], Kim et al. [16], and Juliarini [19] research on the development of district/city regional tax contributions to PAD throughout Indonesia state that : 1) Regency regional tax revenues are smaller than cities; 2) The contribution of local taxes to PAD in regencies is smaller than cities; 3) the development of the amount of the Regency APBD is greater than the City APBD. It shows that the development of regional taxes in regencies is smaller than cities, partly because the tax objects according to the PDRD Law are more oriented towards urban economic activities. With the issuance of Law No.1/2022 concerning HKPD, Regencies/Cities have the authority to adjust PBB tax rates and expand levies. Apart from that, it can also impose options or additions to motor vehicle taxes and transfer fees, as well as expansion of other regional tax objects, such as heavy equipment taxes [7].

From this brief description about the development of regional financial management shows positive performance, the increase in regional financial capacity nationally is very low. The purpose of this research was to examine national regional financial management and the projection of independence with the issuance of the HKPD Law. The research was carried out in the stages starting from analyzing the contribution of local revenue sources, creating PAD forecasting referring to the HKPD Law, projecting changes to the level of fiscal independence for Year 2024, and conducting empirical studies of regional financial performance for Year 2015 to the Covid-19 Year 2020-2021 period. The novelty of this research is in forecasting PAD referring to the HKPD Law, and estimation of the contribution of PAD to the projected increase in the level of independence. The results are expected to be useful for the central and regional governments as well as other stakeholders as information and considerations in making decisions in an effort to achieve fiscal independence.

2. LITERATURE REVIEW

2.1 Regional Autonomy

The implementation of regional autonomy based on Republic Indonesia Regulation Number 32 Year 2004 about Regional Regulation (2004) (Revision UU No. 22 /1999) [20]. Based on this law, local governments have the authority to make local policies to empower economic resources in the area. One of the steps that can be taken to optimize local taxes and fees. Regional tax collection is regulated through Law Number 28 of 2009 concerning Regional Taxes and Regional Retribution (PDRD) [21]. To support finances in the framework of autonomy, the central government also provides balancing funds.

In accordance with article 1 (19) of Law No.33/2004 Balancing Funds come from the APBN that consists of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH) [5]. Financial balance includes the distribution of finances between the center and the regions in a proportional, democratic, fair and transparent manner by taking into account the potential, conditions and needs of the regions. In preparing the APBD there are several schemes such as a deficit, surplus, balanced, and dynamic system. The scheme can be used according to its characteristics, where each has advantages and disadvantages. Regional Financial Management is regulated in Government Regulation Number 12 of 2019 concerning Regional Financial Management. With this regulation, it is expected that financial management in the form of APBD will be better, orderly, efficient and effective, as well as transparent and accountable.

2.2 Regional Financial Management

The efforts to optimize regional financial management require a quality budget. High budget quality will also provide high economic benefits and achieve the expected goals. Aziz et al. [12] found that budget evaluation and clarity of budget targets had a significant effect on the performance of regional financial management.

2.3 Regional Income

Regional Original Revenue (PAD) is all income sourced from regional original wealth sources. PAD includes: Regional tax revenues, levies, Regional Owned Business Results and other separated regional assets.

2.4 Regional Tax

To improve efficiency and resource allocation, the Government gives authority to regions to collect regional taxes and regional levies (PDRD). There are 16 types of taxes that become the regional authority, 7 types of which are under the authority of the Provincial government and 9 other types are under the authority of the Regency/City government.

Table 1. Type of Tax [8]

Types of Provincial Taxes consist of:	Types of Regency/City Taxes consist of:
a) Motor Vehicle Tax;	a) Rural and Urban Land and Building Tax (PBB-P2; and
b) Transfer Fee of Motorized Vehicles; Heavy equipment tax	b) Land and Building Rights Acquisition Fee (BPHTB).
c) Motor Vehicle Fuel Tax;	c) Tax on certain goods and services
d) Surface Water Tax; and	d) Advertisement Tax;
e) Cigarette Tax.	e) Ground water tax
F). Tax options for non-metallic minerals and rocks	f) Tax on non-metallic minerals and rocks
	g) Swallow Nest Tax;
	h) Option for motor vehicle tax; and
	I). Motorized vehicle transfer fee option

2.5 Regional Retribution

Regional retribution is regional levies as payments for services or the granting of certain permits specifically provided or granted by the local government for personal or corporate purposes (UU No. 34/2004). Based on Law Number 28 of 2009 concerning Regional Taxes and Regional Retribution (revised from Law No.18/1997) concerning Regional Taxes and Regional Retribution (PDRD), classify retribution into three groups, namely Public Service Retribution, Business Service Retribution, and Permit Retribution Certain [21].

2.6 Regional Financial Performance

Regional financial performance is a performance measure that uses regional financial indicators. One of the tools to assess regional financial performance is to perform regional financial ratio analysis. It is done to assess the accountability of the Regional Government in managing regional finances. The financial ratio analysis used in this study includes:

a) Regional Financial Efficiency Ratio (REKD)

This ratio illustrates the comparison between the amount of costs incurred to obtain revenue with the actual income received. The financial performance of the Regional Government in collecting revenue is categorized as efficient if the ratio is less than 1 (one) or below 100%. The smaller this ratio means the better the financial performance of the Regional Government. REKD calculation formula:

$$REKD = \frac{\text{Regional Expenditure Realization}}{\text{Regional Revenue Realization}} \times 100\%$$

Table 2. Regional Financial Effectiveness Criteria [22]

Percentage Efficiency (%)	Efficiency Criteria
>100%	Not efficient
100%	Balanced efficiency
<100%	Efficient

b) PAD Effectivity Ratio

This ratio shows the ability of the Regional Government to mobilize PAD revenue according to the target [23]. The formula for calculating the effectiveness of PAD

$$\text{PAD Effectivity Ratio} = \frac{\text{PAD Realization}}{\text{PAD Budget}} \times 100\%$$

Table 3. PAD Effectivity Ratio [22]

Effectiveness Percentage (%)	Effectiveness Criteria
>100%	Effective
100%	Effectively Balanced
<100%	Not effective

c) Degree of Decentralization (DD)

The degree of decentralization illustrates the contribution level of PAD to total regional revenue. The higher the PAD contribution, the higher the capacity of the Regional Government in implementing decentralization. The formula for calculating the DD ratio:

$$DD = \frac{PAD}{Total\ Regional\ Revenue}$$

Table 4. Criteria for Assessment of Decentralization Degree [24]

No.	Percentage	Category
1.	0% - 10%	Very less
2.	10% - 20%	Not enough
3.	20% - 30%	Enough
4.	30% - 40%	Currently
5.	40% - 50%	Well
6.	>50%	Excellent

d) Regional Financial Independence Ratio (RKKD)

This ratio shows the level of ability of a region to self-finance government activities, development and services to the people who have paid taxes and fees as a source of income needed by the region. RKKD calculation formula:

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

2.7 Regional Independences

Regional independence is the level of fiscal independence of regency/city governments based on the ratio of Regional Original Revenue (PAD) to the Regional Revenue and Expenditure Budget (APBD). Regional governments that have succeeded in achieving fiscal independence through a significant increase in PAD indicate that these regions can optimally utilize their potential. A region can be said to have achieved fiscal independence if the portion of PAD is greater than transfers from the center.

Table 5. Interpretation of the Regional Independence Level

Independence Level (%)	Financial capability (Independence interpretation)	Relationship Pattern	Information
0-25%	Very Low	Instructive	The dominant central budget
25-50%	Low	Consultative	The central budget begins to decrease
50-75%	Medium	participatory	Region closes to fiscal capacity
>75%	High	Delegative	Fiscal independence in regional autonomy

2.8 The issuance of the HKPD Law

Law No. 1 Year 2022 regulates Central and Regional Financial Relations (HKPD). This law contains 12 chapters and 193 articles. The contents of 12 chapters include General Provisions, Regional Taxes and Retribution ((PDRD), Regional Expenditure, Regional Debt Financing, Establishment of an Endowment Fund. Furthermore, it regulates funding synergies, national fiscal policy synergies, criminal provisions, other provisions, provisions transitional and closing provisions The substance of the HKPD Law contains

revisions to aspects of the types, rates, and procedures for collecting PDRD. It can be seen from the open scheme, simplification of amounts and changes in nomenclature, as well as several new regulations related to PDRD [7].

With the issuance of the HKPD Law, Law no. 28/2009 concerning Regional Taxes and Regional Retribution (PDRD) that has been amended several times, most recently by Law no. 11/2020 concerning Job Creation is repealed and declared invalid. Then the implementing regulations for the two laws as well as regulations related to the HKPD and PDRD are declared to still be valid as long as they have not been replaced and do not conflict with the HKPD Law [21].

2.9 Projection of Regional Independence

The quantity of government financing utilized to fund the budget is a chance to improve the area economy. The necessity for regional expenditure money must be explored in order to foster increasing independence and originate from one's own ability. It indicates that district/municipal governments must maximize their financial capacity in order to finance governance, welfare, and public services by tapping into regional economic resources. As a result, the PAD income objective is expected to rise further until it achieves fiscal independence at the independent, near-independent, and highly independent levels.

3. METHOD

3.1 Data Source and Analysis

This study used secondary data obtained from the Central Statistics Agency (BPS), the Ministry of Finance of the Republic of Indonesia, the Kebumen Regency Government and other related data sources. The sample criteria used Regional Government Financial Reports (LKPD) from districts/cities that were not yet independent and are already independent. The process of analyzing data descriptions includes tracing and disclosing relevant information contained in the data. The results were presented more simply to lead to explanation and interpretation.

3.2 Operational Definition and Variable Measurement

According to Sugiyono [25], variable is everything in any form determined by the researcher to be studied so the information and conclusion can be obtained. The variables in this study consisted of PAD and its sources, transfer income, regional income. The observation of research data for analysis and discussion through several stages:

- a) Collect relevant data and information
- b) Check regional financial data on a national basis
- c) Conduct an empirical study of the district/city regional financial reports
- d) Make PAD forecasting for the Year 2022-2024 period using the least square method.
- e) Make PAD projections referring to the HKPD Law in achieving fiscal independence.

2.3 Regional Tax

Local tax is the levies made by local governments based on regional regulations. Local Tax Contribution to PAD is calculated by the formula:

$$\text{Local tax contribution} = \frac{\text{Regional Tax}}{\text{PAD}} \times 100\%$$

3.3 Regional Retribution

Regional retribution is regional levies to pay for a job, regionally owned business, or services provided by the region.

3.4 Trend Analysis

Trend analysis in this study is used to see the potential trend of local taxes and fees from time to time in a data series during the period 2017 to 2021 has increased or vice versa has decreased. This trend analysis is used to project or forecast the receipt of Regional Taxes and Retribution of Kebumen Regency in the future, using the least square method with the formula:

$$Y = a + bx$$

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum xy}{\sum x^2}$$

Description :

- y = The variable with the searched trend
- a = Constant Value. B = Parameters
- x = Time Variable (year)
- n = Number of Data

4. RESULT AND DISCUSSION

4.1 Analysis of Regional Revenues throughout Indonesia

The development of the realization of regional revenues for districts/cities throughout Indonesia in the last five years since 2017 had fluctuated, but generally it tends to increase. In this research period there was one source of receipts at other legitimate PAD posts that tend to decrease to -17 during 2017-2021.

In the five-year period, regional income grew 5% from IDR 753.54 trillion in 2017 to IDR 791.66 trillion in 2021. PAD revenues for 5 years grew 5% from IDR 125.17 trillion to IDR 131.80 trillion with The Rp 492.97 trillion balance fund increased to Rp 500.29 trillion (1.6% growth). Regional tax contributions and retribution on PAD always increased, growing 24% and 28% respectively. The achievement of Source PAD revenue realization showed positive performance, but this increase was not significant in increasing regional fiscal independence during the 2017-2021 Year. The contribution of PAD to regional income nationally was very low at an average of 15.6% so that the majority of regional finances relied on transfers of funds from the center.

Table 6. Realization of Regional Income and Financing of Regencies/cities throughout Indonesia

Type of Revenue	Realization of Regency/City Government Revenues throughout Indonesia (milion rupiahs)					growth
	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	2017-2021
REGIONAL INCOME	753548070	775735479	841070899	831964912	791661576	5%
Regioal Income (PAD)	125170736	114344840	124517905	132784328	131801226	5%
✓ <input checked="" type="checkbox"/> Local taxes	54380243	58005909	64822598	68395127	67443015	24%
✓ <input checked="" type="checkbox"/> Regional Retribution	7896390	7623228	8042041	9990024	10124330	28%
✓ <input checked="" type="checkbox"/> Results of Regional Company and Management	4263865	4188981	4625840	5015939	5382470	26%
✓ <input checked="" type="checkbox"/> Other Legal PAD	58630236	44526721	47027425	49383237	48851409	-17%
Balancing Fund	492974641	512995037	537097132	529500112	500956170	2%
Other Legitimate Income	135402693	148395601	179455861	169680471	158904179	-
REGIONAL FINANCING	60361378	61458384	90865942	54108642	55777710	-
TOTAL	813909449	837193864	931936841	886073554	847439286	-

4.2 PAD Trend Analysis in Indonesia

Regional original income for the 2015-2021 year period had increased, but in its development over the past 6 years it has fluctuated.

Table 7. PAD Revenue and PAD forecasting in 2017-2024

Year	PAD (thousand)	Growth (%)	Year	Forecasting PAD	Forecasting Pertumbuhan (%)
2017	125170736		2022	135233947	
2018	114344840		2023	138403994	
2019	124517905		2024	198203657	
2020	132784328				
2021	131801226				

Figure 1. Trend PAD, Regional Balancing Fund and Regional Income

4.3 The PAD projection refers to the HKPD Law

The issuance of Law No. 1 Year 2022 concerning HKPD changes the tax rate to 3-5%, especially for PBB-P2 so that it can be estimated that it can increase local taxes by up to 50% [7]. Furthermore, the expansion of regional tax and retribution options can increase PAD revenues. In this calculation, researchers pay attention to several aspects that can affect the effectiveness of the PAD acceptance source. The PAD achievement assumption projected at the start of the implementation of the HKPD Law was 40% of the PAD forecasting results for the upcoming Year 2024.

Table 8. Forecasting and PAD projections for 2022-2024

Year	City		Regency			
Regional Income	Kebumen Regency	Jombang Regency	Surabaya City	Tangerang City	Batam City	Semarang City
2021	2,733,295,518	2,883,526,219	8,660,402,684	4,200,000,000	2,527,649,556	4,822,890,599
Year	Forecasting of PAD in 2022-2024 (in thousand)					
2021	472,017,067	665,844,012	5,561,555,949	1,819,000,000	1,094,054,191	2,385,948,066
2022	498,026,469	490,626,000	5,828,330,000	2,610,091,000	1,228,701,000	2,231,150,000
2023	529,103,158	509,000,000	6,198,962,000	2,794,309,000	1,319,279,000	2,406,496,000
2024	560,179,847	528,310,000	6,569,594,000	2,978,527,000	1,409,857,000	2,581,842,000
Year	PAD projections with changes in tariffs and tax options refer to the HKPD Law					
2024	784,251,786	739,648,000	9,197,431,600	4,169,937,800	1,973,799,800	3,614,571,600

4.4 PAD Projection Estimation of Degree of Decentralization

Assuming that all regencies/cities will implement the changes to regional tax rates and levies as well as tax options in accordance with the provisions of the HKPD Law, PAD revenues for all regencies/cities will increase. It is evidenced from the results of forecasting and projections of PAD with reference to the HKPD Law, that estimates a significant increase in PAD in 2022-2024 so that the degree of decentralization of each Regency/City in general will increase to the above category, except for regions whose PAD that is below 8% of total regional income.

4.5 Estimation of Interpretation Change of Independence

The results of forecasting and projection of PAD with reference to the HKPD Law showed that generally PAD will increase so that it can change the level of fiscal independence. From the estimation

results in Table 8 for each group, there are several regions that have not been able to immediately rise to the level of independence above it, except for regions with now achieved a high level of independence.

Table 9. Projection of changes in the level of independence of regencies/cities for 2024

1 Level of independence	2 Interpretation of independence	3 PAD projection referring to HKPD-PAD	4 The effectiveness of increasing the contribution of PAD	5 The degree of unchanged independence	6 Level of Leveled up independence	7 Change of independence to the above level	8 Additional Information
0-25%	Very low	Up 40%	0-10%	0-18%	18-25%	from very low up to "Low" level	Nationally, areas that are at a low level are 89%
25-50%	Low	Up 40%	10-20%	25-38%	38-50%	to Medium level	
50-75%	Medium	Up 40%	20-30%	50-63%	63-75%	to High level	Nationally an independent area 11%
>75%	High	Up 40%	>30%	>75%	>75%	Very independent	

From the forecasting results and projected changes in the level of independence with the implementation of the HKPD Law that will come into effect in 2024, it can be estimated that for each regional group at a certain level it will increase to the level above, namely those included in column 6 (six). However, not all regions at the same level of independence can simultaneously level up as in column 5 (five), while regions with a level of independence above 75% were projected to increase to very independent or the contribution of PAD to APBD reaches above 100% (budget surplus) even though without transfer assistance from the center such as the City of Tangerang, Surabaya and Badung Regency so it can be very independent area.

From the forecasting results and projected changes in the level of independence with the implementation of the HKPD Law that will come into force in 2024, it can be estimated that for each group of regions at a certain level will increase to the level above, namely those included in column 6 (six). However, not all regions at the same level of independence can simultaneously level up as in column 5 (five). The PAD projection for changes in independence for Year 2024 showed regions with a level of independence of 0-18%, 25-38% and 50-63%, the estimated level of independence has not changed, and regions with a level of independence of 18-25%; 38-50%, and 63-75% level of independence will rise one level above. Regions with a level of independence above 75% of their projected PAD can achieve a budget surplus even without transfer assistance from the center. Comparison of PAD with transfer income in several regencies/cities as research samples can be seen in Figure 2.

From the graph above, it can be seen that in regencies/cities with low level of financial independence, such as the samples in Kebumen and Jombang Regencies, the application of the HKPD Law can increase PAD, but they still really need transfer funds from the center. Regions with a high level of independence will increase to be very independent so that they can finance their own spending, such as Batam City and Semarang. In fact, in addition to be able to finance their own expenditure needs, some regions have achieved a budget surplus, such as the City of Surabaya and the City of Tangerang. To support the enactment of the HKPD Law, local readiness is needed by encouraging the economy and investment, identifying tax options, reducing administration and compliance costs, extensifying the tax base, and harmonization with other laws and regulations. It is very necessary to accelerate the increase in PAD, especially for districts/cities with low level of financial independence.

Figure 2. Graph of PAD Composition and Transfer Income for 2024 (thousands)

4.6 Regional Financial Ratio

This empirical study was conducted on the regional financial statements of Kebumen Regency, Central Java. The discussion started with an analysis of regional financial ratios during the Covid-19 period by conducting an empirical study in Kebumen Regency, Central Java.

Table 10. Kebumen Regional Financial Ratios for 2015-2021

Financial Ratio /Year	2015	2016	2017	2018	2019	2020	2021
REKD	87.4	87.61	77.89	81.29	96.69	13.34	16.29
PAD Effectiveness	110.6	106.51	101	79.71	100.53	14.52	18.01
DD	10.54	11.17	16.35	99.08	123.32	14.59	18.13
RKKD	11.9	12.59	19.59	98.16	118.9	16.67	21.24

The Table 10 showed the financial management of the Kebumen district for 2015-2021 in the efficient category with a ratio below 100%. The PAD effectiveness ratio was above 100% (effective), it means that the Regional Government is able to mobilize PAD revenues according to the target, except for 2018 because the ratio is <100%. While the value of the degree of decentralization was below 20, it means that the Kebumen Regional Government had not been able to properly organize decentralization of regional revenues. Kebumen Regency's financial capacity was very low, below 25% so that the relationship pattern was instructive, it means that the financial role of the central government was more dominant than regional independence.

Table 11. Local tax contributions and levies to PAD in Kebumen

Year	2015	2016	2017	2018	2019	2020	2021
Regional tax contribution to PAD	21.2	21.6	17.9	27.4	27	25	23.8
Retribution Contribution to PAD	10.9	8.7	5.1	10.6	6.6	5.4	5

Table 11 informs that the growth in the contribution of local taxes to Kebumen PAD was still low, between 21-27% and regional retribution on average, the contribution had decreased from 10% in 2015 to 5% in 2021. It showed that the total revenue from local taxes and levies has increased but the growth rate was relatively low. Based on financial report data, it is known that the amount of PAD in 2020 was Rp. 403 billion, a contribution of 60% of Legal Other Income. Therefore, with the issuance of the HKPD Law, local taxes and fees (PDRD) were projected to increase PAD revenues.

Figure 3. Graph of local tax contribution to PAD in Kebumen 2015-2021

4.7 Regional Tax Revenue Trends

Generally, regional tax revenues had increased, but their growth tended to decline. With the implementation of the HKPD Law, it is projected to increase regional tax revenues. Forecasting for projections of PAD revenue is in Table 12.

Table 12. District Tax Projection in Kebumen Regency 2015-2021

Year	Regional Tax	Regional Tax Growth (%)
2015	52,015,233	-
2016	62,838,508	20
2017	79,479,454	26
2018	96,775,593	21
2019	110,614,568	14
2020	100,877,584	-8
2021	112,474,854	4
2022	129,095,414	Forecasting 13
2023	139,402,275	Forecasting 7
2024	149,709,136	Forecasting 7

The trend of regional tax revenues was positive with a steep slope, it indicates a high tendency for local tax revenues to increase. Although the revenue rate had increased viewed from the growth rate side that tended to decline.

Figure 4. Regional Tax Trend in Kebumen Regency 2015-2020

4.8 Regional Tax (PBB-P2)

PBB revenues in Kebumen from year to year showed an increase and their contribution to PAD tends to increase, although it has experienced a decline.

Table 13. PBB Contribution to PAD and Regional Revenue (PD)

Year	Property Tax (Rp)	PAD (Rp)	Contribution of PBB to PAD	Regional Income (Rp)	Contribution of PBB to PD
2015	20,894,957,592	245,159,255,421	8.5(%)	2,326,188,256,641	0.8%
2016	25,577,241,022	291,016,321,703	8.7%	2,606,209,824,034	0.9%
2017	34,003,478,227	443,608,862,461	7.6%	2,713,113,397,677	1.2%
2018	42,248,611,770	352,047,092,281	12%	2,287,767,772,116	1.8%
2019	48,222,131,277	409,163,433,329	11.7%	2,818,494,983,540	1.7%
2020	48,454,001,000.	403,025,963,783	12%	2,762,987,014,628	1.7%

4.9 Trend of Acceptance of Regional Retribution

Based on data from Regional Retribution revenues for 2015-2021, it had fluctuated. In 2018 there was a growth of 64% but in 2019 it decreased (-27%) and in 2022 the growth (-18%) so generally, during 2015-2021 Regional retribution decreased.

Table 14. Forecasting of Kebumen Retribution in 2022-2024

Year	Regional Retribution	Retribution Growth (%)	Year	Regional Retribution	Forecast of Growth Retribution (%)
2015	26,897,280	-	2022	24,744,610	4
2016	25,432,356	-5	2023	24,316,926	-1
2017	22,655,157	-10	2024	23,889,242	1
2018	37,339,858	64			
2019	27,141,726	-27			
2020	22,068,306	-18			
2021	23,652,739	-2			

Figure 5. Trend of Retribution receipts in Kebumen 2022-2024

The projection of regional retribution receipts in 2022-2024 fluctuated but had a slight upward trend as indication of non-significant tendency to increase regional retribution.

4.10 Trend in Kebumen Regency

The original regional income of Kebumen Regency for the 2015-2021 period has increased, but there is the fluctuation development for 8 years.

Table 15. PAD receipts and PAD forecasting for 2015-2024

Year	PAD (thousand)	Growth (%)	Year	PAD Forecasting	Growth (%)
2015	245,159,255	-	2022	498,026,469	5.5
2016	291,016,321	18	2023	529,103,158	6.24
2017	443,608,862	52	2024	560,179,847	5.56
2018	352,047,092	-20			
2019	409,163,433	16			
2020	403,025,963	-1			
2021	472,017,067	17	2024	784,251,786	48.20

The PAD forecasting results for 2022-2024 showed an increase. From the estimated results of PAD that were projected with the implementation of the HKPD Law in the upcoming 2024, the estimated PAD increase dramatically to grow to 48.20% with a projected PAD receipt of IDR 784.25 billion.

Figure 6. Forecasting and Projection of 2022-2024 PAD Revenue

Based on the graphic above, the amount of Kebumen PAD receipts during 2015-2021 fluctuated with the increasing trend, but the growth rate tends to be lower. Then the results of forecasting PAD for 2022-2024 showed a positive trend with a steep slope, especially in 2024, it means that PAD tends to increase even higher. From the results of the estimation of changes in the level of financial independence, Kebumen Regency will be able to increase the level of independence from "very low" to "low". The increase in PAD as shown from the results of this empirical study will also occur in general in districts/cities when the HKPD Law is effective starting in 2024 for all of Indonesia.

5. CONCLUSION

From the results of the analysis and discussion of regional financial management performance and PAD projections for districts/cities in 2015-2021, it can be concluded that: There is a decrease in Regency/City PAD receipts during the Covid-19 period (2020-2021). The amount of regional tax revenue has increased, but the growth has tended to decrease so that the percentage of the contribution to regional income has become less significant. PAD and Regional Revenue nationally grows 5% above the Balancing Fund with the 2% growth, it proves that several achievements of fiscal decentralization has positive performance. The forecasting of PAD for 2022-2024 referring to the HKPD Law shows a positive trend with a steep slope so that it can increase the degree of decentralization nationally. The projection of PAD towards changes in independence with the enactment of the HKPD Law for 2024 shows that generally it will increase the level of independence by one level, although not entirely. Regions with 0-18% RKKD; 25-38% and 50-63% estimated level of independence tends not to change, The regions with RKKD 18-25%; 38-50% and 63-75% the level of independence will increase by one level, and regions with RKKD > 75% of their PAD projections can achieve very independence. These findings are useful for central and regional governments as well as other stakeholders as information in formulating policies.

From an empirical study from Kab. Kebumen, the Regional Tax has a positive trend with a steep slope, while the trend of retribution slightly increases. Decentralization ratio <20% (low category), PAD effectiveness ratio >100% (effective) and independence ratio 18% <25% (very low). With the issuance of the HKPD Law, Kebumen PAD will increase, but the RKKD is 21.24%, so according to the estimation results the level of regional independence tends to increase from "very low" to "low".

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