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Analyzing the Role of Regional Revenue and Employee Spending on Financial Autonomy: Evidence from Banten Province

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ABSTRACT

Purpose—This study aims to analyze the influence of Pendapatan Asli Daerah (PAD) and personnel expenditure on regional financial independence in districts and cities of Banten Province during 2018–2022. Financial independence is a critical measure of a region's fiscal autonomy, reflecting its capacity to reduce dependence on external funding. This research addresses the persistent disparities in PAD and financial independence across regions, exploring how these factors contribute to fiscal performance.
Design/methods/approach– A quantitative research approach was employed, utilizing secondary data from regional financial statements published by the Directorate General of Fiscal Balance (DJPK). The dataset includes 40 observations across eight regions over five years. Multiple linear regression analysis was applied to evaluate the individual and simultaneous effects of PAD and personnel expenditure on financial independence. Descriptive statistics and classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) were conducted to validate the model.
Findings– The results reveal that PAD has a positive and significant effect on financial independence (t-value = 2.537, $p = 0.016$), indicating that higher PAD contributes to fiscal autonomy. Personnel expenditure, however, has a negative but statistically insignificant effect (t-value = -1.744, $p = 0.090$). The coefficient of determination (R^2) indicates that 10.3% of the variance in financial independence is explained by PAD and personnel expenditure, suggesting other unexamined factors.
Research implications/limitations— The study is limited to the context of Banten Province and does not account for external factors such as governance quality or economic conditions, which may influence financial independence. Future research should incorporate broader variables and cross-regional comparisons to enhance generalizability.
Originality/value– his research contributes to the literature on regional fiscal autonomy by emphasizing the role of PAD in achieving financial independence. The findings offer practical recommendations for optimizing local revenue generation and improving fiscal performance, providing valuable insights for policymakers and local governments.

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Introduction

The policy of regional autonomy in Indonesia, first established under Law No. 22 of 1999 and later revised by Law No. 32 of 2004 and Law No. 23 of 2014, aims to empower local governments with greater authority to manage resources and affairs. This shift toward decentralization is rooted in the principle of granting local governments the flexibility to address regional needs while enhancing public services and fostering economic development. Despite these intentions, achieving regional financial independence remains a significant challenge, particularly in provinces where local economic disparities persist.

Regional financial independence is a critical indicator of a region's ability to reduce reliance on central government funding. This independence is measured through the ratio of Pendapatan Asli Daerah (PAD) to external financial support, including central government transfers and loans. According to Raudha et al. (2023), PAD reflects a region's fiscal capacity to fund its activities and serves as a benchmark for evaluating its economic autonomy. Local governments with high PAD ratios demonstrate better financial self-reliance and greater capacity to implement development projects without external aid. However, variations in PAD across regions, as observed in Banten Province, underscore the need to address structural imbalances in local revenue generation.

The role of PAD in supporting financial independence has been well-documented. For example, Monica and Gideon (2022) found a significant positive relationship between PAD and financial independence, emphasizing the importance of optimizing local tax and retribution systems. Similarly, Saleh (2020) highlighted that regions with higher PAD could allocate more resources toward development projects, reducing their dependence on central government transfers. Despite these findings, not all regions effectively manage their PAD, leading to inconsistencies in achieving financial independence. Factors such as administrative inefficiencies, poor tax compliance, and inadequate resource management often hinder PAD optimization.

Personnel expenditure (belanja pegawai) is another critical factor influencing regional financial independence. This expenditure includes salaries, allowances, and benefits for civil servants, which often constitute a significant portion of regional budgets. While necessary for maintaining administrative functions, excessive personnel expenditure can constrain fiscal flexibility, limiting allocations for capital projects and economic development. Research by Baviga and Bahrun (2022) and Rofiq and Indra (2021) suggests that poorly managed personnel expenses negatively impact financial independence by increasing fiscal rigidity and reducing the capacity for strategic investments. Conversely, efficient personnel expenditure can enhance productivity and improve service delivery, indirectly supporting financial independence.

Mixed findings in the literature highlight the complexities surrounding PAD and personnel expenditure. For instance, Kusmila (2023) observed no significant relationship between PAD and financial independence in certain regions, while Nur and Endro (2021) found that personnel expenditure had no substantial impact on financial independence. These discrepancies point to contextual differences in financial management practices, economic conditions, and governance structures across regions, underscoring the importance of localized analysis.

Using Stewardship Theory and Agency Theory as its theoretical frameworks, this study examines the influence of PAD and personnel expenditure on regional financial independence in Banten Province for the period 2018–2022. Stewardship Theory emphasizes the role of local governments as accountable stewards of public resources, responsible for optimizing PAD and managing expenditures effectively to achieve fiscal autonomy. In contrast, Agency Theory highlights the potential for conflicts of interest between central and local governments, particularly in balancing resource allocation and meeting public expectations.

This research situates itself within the broader discourse on regional fiscal autonomy, addressing gaps in understanding the simultaneous effects of PAD and personnel expenditure on financial independence. By focusing on Banten Province, a region with significant disparities in financial performance across its districts and cities, the study aims to provide empirical evidence and actionable recommendations to support policymakers in improving local fiscal management and autonomy.

Methods

This study adopts a quantitative research approach with a descriptive and associative design to analyze the influence of regional income (Pendapatan Asli Daerah or PAD) and personnel expenditure on regional financial independence. The research employs a multiple regression analysis framework to evaluate both the individual and simultaneous effects of the independent variables on the dependent variable. This approach aligns with previous studies exploring relationships between financial variables and regional fiscal performance (Sugiyono, 2019).

The population of this study consists of all districts and cities in Banten Province, encompassing four districts and four cities. Covering a period of five years (2018–2022), the dataset includes 40 observations. This timeframe was chosen to capture financial performance trends during a period of economic fluctuation, including the impacts of the COVID-19 pandemic. A saturated sampling technique was applied, ensuring that all members of the population were included in the study, providing comprehensive coverage of regional financial dynamics (Hikmawati, 2020).

Data collection relied on secondary sources, including official publications from the Directorate General of Fiscal Balance (DJPK) and regional financial reports. The main data sources included Budget Realization Reports (Laporan Realisasi Anggaran) and Balance Sheets (Neraca) from each district and city, along with relevant laws such as Law No. 33 of 2004 defining PAD and its components. The key variables measured in this study were PAD (X_1), personnel expenditure (X_2), and regional financial independence (Y). PAD was represented by total revenues from taxes, retributions, asset management, and other local incomes, while personnel expenditure referred to the total spending on salaries, benefits, and allowances for civil servants. Regional financial independence was calculated as the ratio of PAD to the total transfers from central and provincial governments and loans (Raudha et al., 2023).

Data analysis involved several steps. First, descriptive statistics were used to summarize the dataset, including measures of central tendency and dispersion for each variable (Sugiyono, 2019). Next, classical assumption tests were conducted to ensure the validity of the regression model. These tests included the normality test to verify data distribution, multicollinearity test using Variance Inflation Factor (VIF) and tolerance values to detect high correlations between independent variables (Ghozali, 2021), heteroscedasticity test through scatterplot analysis to assess error variance (Fitri et al., 2023), and autocorrelation test using the Durbin-Watson statistic to evaluate residual independence (Ghozali, 2021).

The primary analysis employed multiple linear regression to estimate the relationship between PAD, personnel expenditure, and regional financial independence. The regression equation was specified as $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$, where Y represents regional financial independence, X_1 represents PAD, X_2 represents personnel expenditure, α is the constant, β_1 and β_2 are the regression coefficients, and ε is the error term (Sugiyono, 2019). Hypothesis testing was conducted using the t-test to assess the significance of individual independent variables and the F-test to evaluate the collective influence of all independent variables. The coefficient of determination (R^2) was calculated to measure the proportion of variance in regional financial independence explained by PAD and personnel expenditure (Ghozali, 2021).

To ensure the validity and reliability of the findings, the study employed standardized statistical tools, including IBM SPSS 26 and Microsoft Excel for data analysis (Ghozali, 2021). Ethical considerations were addressed by maintaining the confidentiality of financial data and adhering to transparency in reporting findings.

Result

This section presents the findings of the study, divided into subsections for clarity and precision. The results include descriptive statistics, hypothesis testing, and regression analysis to evaluate the influence of PAD and personnel expenditure on regional financial independence.

Descriptive Statistics

Descriptive statistics provide an overview of the main variables in the study, including PAD, personnel expenditure, and regional financial independence. Table 1 summarizes the minimum, maximum, mean, and standard deviation values for each variable.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
PAD (X_1)	164,218,548,654	3,665,710,323,870	1,092,589,217,263	952,690,955,986
Personnel Expenditure (X_2)	515,727,520,940	2,151,084,483,213	1,103,092,887,807	390,632,093,979
Financial Independence (Y)	9.04%	118.35%	56.79%	40.34%

Table 1 reveals substantial variation in PAD across the regions, with a minimum of IDR 164 billion and a maximum of IDR 3.6 trillion. This wide range indicates significant disparities in local revenue-generation capabilities. The mean PAD value of approximately IDR 1.1 trillion, coupled with a high standard deviation of IDR 952 billion, reflects that some regions significantly outperform others in generating their own income. Similarly, personnel expenditure shows notable differences, with values ranging from IDR 515 billion to IDR 2.1 trillion. The mean personnel expenditure of IDR 1.1 trillion suggests that a substantial portion of regional budgets is allocated to salaries and benefits, which may constrain fiscal flexibility. Financial independence shows an average value of 56.79%, with a minimum of 9.04% (indicating high dependence on external funding) and a maximum of 118.35% (indicating fiscal self-reliance). These statistics underscore the diverse fiscal conditions among districts and cities in Banten Province.

Hypothesis Testing

Partial Effects (t-Tests)

The t-test evaluates the individual effects of PAD and personnel expenditure on regional financial independence. The results are presented in Table 2.

Table 2. t-Test Results

Variable	t-Value	p-Value	Significance
PAD (X_1)	2.537	0.016	Significant (Positive Effect)
Personnel Expenditure (X_2)	-1.744	0.090	Not Significant (Negative Effect)

Table 2 indicates that PAD has a statistically significant positive effect on financial independence, with a t-value of 2.537 and a p-value of 0.016. This suggests that regions with higher PAD tend to rely less on external funding and achieve greater fiscal autonomy. Conversely, personnel expenditure has a negative but statistically insignificant effect on financial independence, with a t-value of -1.744 and a p-value of 0.090. While high personnel costs may constrain fiscal flexibility, their isolated effect on financial independence is not substantial in this study.

Simultaneous Effects (F-Test)

The F-test assesses the combined influence of PAD and personnel expenditure on financial independence. Table 3 presents the F-test results.

Table 3. F-Test Results

F-Value	p-Value	Significance
3.235	0.051	Not Significant (No Simultaneous Effect)

Table 3 shows that the combined effect of PAD and personnel expenditure on financial independence is not statistically significant, with an F-value of 3.235 and a p-value of 0.051. While PAD has a significant individual impact, the lack of a significant simultaneous effect suggests that other unexamined factors may moderate or influence the relationship between these variables and financial independence.

Regression Analysis

The regression analysis yielded the equation $Y = 0.142 + 5.459E\text{-}14X_1 - 9.152E\text{-}14X_2 + \varepsilon$. The regression coefficients are summarized in Table 4.

Table 4. Regression Coefficients

Variable	Coefficient (B)	t-Value	p-Value	Significance
Constant	0.142	3.113	0.004	Significant
PAD (X_1)	5,46E-11	2.537	0.016	Significant (Positive Effect)

Variable	Coefficient (B)	t-Value	p-Value	Significance
Personnel Expenditure (X_2)	-9,15E-11	-1.744	0.090	Not Significant (Negative Effect)

Table 4 confirms that PAD positively and significantly influences financial independence, with a coefficient of 5.459E-14 and a p-value of 0.016. This highlights the critical role of local revenue in achieving fiscal autonomy. Meanwhile, personnel expenditure has a negative coefficient of -9.152E-14, suggesting a potential constraint on fiscal independence, but its effect is not statistically significant with a p-value of 0.090.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) for the model is 0.103, indicating that 10.3% of the variance in financial independence can be explained by PAD and personnel expenditure. The remaining 89.7% of the variance is attributable to other factors not included in the model, such as governance quality, external funding policies, and regional economic conditions. This result suggests that while PAD plays a crucial role in promoting financial independence, a broader set of factors needs to be considered to fully understand fiscal autonomy in regional governments.

Discussion

The findings of this study provide valuable insights into the relationship between Pendapatan Asli Daerah (PAD), personnel expenditure, and regional financial independence in Banten Province during the period 2018–2022. The discussion interprets these results in light of previous studies and theoretical frameworks, highlights practical implications, and suggests directions for future research.

The results show that PAD has a positive and significant effect on financial independence, aligning with previous studies by Monica and Gideon (2022) and Saleh (2020), which emphasize the critical role of local revenue in reducing dependence on external funding. Higher PAD allows regions to allocate resources for operational and developmental needs, reflecting greater fiscal autonomy. This finding supports Stewardship Theory, which posits that local governments, as stewards of public resources, can enhance fiscal performance by maximizing local revenue generation. However, significant disparities in PAD across regions, as indicated by the descriptive statistics, suggest that some districts and cities in Banten Province struggle with revenue optimization due to structural or administrative inefficiencies.

In contrast, personnel expenditure, while negatively associated with financial independence, did not show a statistically significant effect. This result is consistent with studies by Rofiq and Indra (2021) but diverges from findings by Baviga and Bahrun (2022), who identified a significant negative impact of personnel expenditure on fiscal autonomy. The lack of significance in this study may indicate that personnel costs, while substantial, are relatively stable and do not directly undermine fiscal independence in the short term. From the perspective of Agency Theory, excessive personnel expenditure could reflect agency problems, where resources are allocated inefficiently due to misaligned priorities between local governments and their stakeholders.

The F-test results indicate that PAD and personnel expenditure, when considered simultaneously, do not significantly influence financial independence. This finding suggests the presence of other unexamined factors, such as governance quality, economic conditions, and external funding policies, that may moderate the relationship between the studied variables and fiscal autonomy. The relatively low R^2 value of 0.103 further supports this notion, highlighting the need to explore additional determinants of financial independence.

Implications of Findings

The findings have several practical implications for policymakers and local governments in Banten Province. First, enhancing PAD should remain a priority to improve fiscal autonomy. This can be achieved by strengthening tax collection systems, increasing retribution efficiency, and optimizing the management of regional assets. Second, while personnel expenditure did not show a significant impact in this study, it is important to maintain a balanced budget by avoiding excessive allocation to salaries and benefits at the expense of developmental spending. Strategies such as performance-based budgeting and workforce optimization could help improve the efficiency of personnel expenditure.

The results also underscore the importance of addressing systemic issues that may hinder fiscal performance. For instance, improving governance quality, enhancing transparency, and fostering inter-regional collaboration can contribute to better financial management and autonomy.

Comparison with Previous Studies

This study contributes to the ongoing discourse on regional fiscal autonomy by confirming the critical role of PAD in achieving financial independence while highlighting the limited direct impact of personnel expenditure. However, the findings also reveal inconsistencies with previous studies, particularly regarding the role of personnel expenditure. These discrepancies may arise from contextual differences, such as variations in economic conditions, governance practices, and resource management across regions.

Future Research Directions

Future research should address the limitations of this study by incorporating additional variables, such as governance quality, stakeholder engagement, and external economic factors, to provide a more comprehensive understanding of the determinants of financial independence. Comparative studies across multiple provinces could offer insights into regional variations and best practices. Furthermore, qualitative research methods, such as case studies and interviews with policymakers, could complement quantitative findings by uncovering deeper insights into the mechanisms influencing fiscal autonomy.

In conclusion, this study highlights the importance of PAD as a driver of regional financial independence and underscores the need for integrated strategies to enhance fiscal performance. The findings contribute to both theoretical and practical discussions on regional financial management, offering a foundation for future research and policy innovation.

Conclusion

This study investigated the influence of Pendapatan Asli Daerah (PAD) and personnel expenditure on regional financial independence in districts and cities of Banten Province during the period 2018–2022. The findings highlight the significant role of PAD in enhancing fiscal autonomy, while personnel expenditure, although negatively associated, did not show a statistically significant effect.

The results confirm that higher PAD contributes to greater financial independence, allowing regions to reduce their reliance on external funding and allocate resources more effectively. This underscores the importance of optimizing local revenue generation through improved tax collection, retribution management, and better utilization of regional assets. Conversely, while personnel expenditure represents a major component of regional budgets, its isolated effect on financial independence appears limited. This suggests that personnel costs, while substantial, are relatively stable and may not directly impede fiscal autonomy in the short term.

From a practical perspective, the findings offer actionable recommendations for policymakers. Local governments should prioritize strategies to maximize PAD, such as implementing more efficient tax systems, enhancing transparency in revenue collection, and leveraging regional assets for economic development. At the same time, a balanced approach to budget allocation is essential to prevent excessive personnel expenditure from crowding out developmental spending. Policymakers may consider adopting performance-based budgeting and workforce optimization strategies to enhance efficiency.

This study also highlights the need to address systemic issues, including governance quality, economic conditions, and inter-regional collaboration, to foster sustainable fiscal autonomy. These broader factors, which are not directly captured in this study, likely play a significant role in determining the overall financial independence of regions.

The findings contribute to the broader discourse on regional financial management by confirming the critical role of PAD in achieving fiscal independence while highlighting the complexities surrounding personnel expenditure. Future research should explore additional variables, such as governance practices, stakeholder engagement, and external economic factors, to provide a more comprehensive understanding of fiscal autonomy. Comparative studies across multiple provinces and qualitative approaches, such as case studies and interviews, could further enhance insights and guide policy innovation.

In conclusion, this study reinforces the importance of PAD as a key driver of regional financial independence and emphasizes the need for integrated strategies to enhance fiscal performance. By focusing on revenue optimization and efficient resource allocation, local governments can achieve greater autonomy and contribute to regional development goals.

Declarations

Author contribution statement

The lead author participated in the study's conceptualization and design, analysis, interpretation of data, and initial drafting of the paper. Each author contributed to the critical revision of the content for intellectual rigor and provided final approval for the published version. All authors are responsible for every aspect of the work.

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Data availability statement

The data supporting this study's findings are available from the corresponding author upon reasonable request. However, due to privacy and ethical considerations, the data are not publicly accessible.

Declaration of Interests Statement

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