



# Self-Reliance of Balikpapan City as A Partner of The Capital City of the Nusantara (IKN)

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**Abstract.** The proposal to relocate the capital to The Nusantara (IKN) in East Kalimantan Province, along with the rapid infrastructure development in the new capital, has implications for the surrounding areas, particularly Balikpapan City. This research aims to assess the impact of utilizing regional revenue sources, such as Regional Original Revenue (PAD), Balancing Funds, and Other Legal Revenues, on the ability of Balikpapan City to independently finance its development. The study focuses on how Balikpapan City, as a partner to the new capital, is affected. Data, primarily sourced from the Balikpapan City Regional Finance and Asset Management Agency, was analyzed using a saturated sampling method. Results indicate that collectively, Regional Original Revenue, Balancing Funds, and Other Legal Revenues significantly influence Balikpapan City's regional expenditure and development capacity. Specifically, Regional Original Revenue emerges as the most influential factor in financing regional development, while Balancing Funds and Other Legal Revenues have comparatively lesser impacts.

**Keywords:** Regional Expenditure, Regional Original Revenue (PAD), Balancing Funds, Other Legal Revenues.

## 1 Introduction

The decision to move the National Capital (IKN) of the Nusantara to East Kalimantan Province, coupled with the rapid pace of infrastructure development in the new Capital City of The Nusantara (IKN), significantly influences the progress of the neighboring region, particularly Balikpapan City.

The Indonesian government declared that it would relocate the nation's capital city from Jakarta to East Kalimantan on August 16, 2019 [1]. East Kalimantan, situated on the island of Kalimantan (Borneo), boasts one of the planet's most ancient and expansive tropical rainforests. Nonetheless, starting from 2000, the region has undergone distressing deforestation, resulting in a reduction of indigenous species like orangutans and proboscis monkeys [2].

As A Partner of The Capital City of The Nusantara (IKN), Balikpapan City needs an independent regional budget for good roads as facilities and infrastructure to support

transportation that is important to facilitate economic activities in Balikpapan City, which is directly adjacent as well as a partner of the Capital City Of The Nusantara (IKN). In addition, increased road construction is needed to facilitate the mobility of residents and facilitate the flow of goods traffic from one region to another.

Balikpapan City, which has long developed as a port city and oil refining industry, is also a transit hub for the region and other cities that develop around it. With this very strategic position, Balikpapan City not only supports regional economic development, but also grows into an important business and production control activity center in East Kalimantan [3].

To build Balikpapan City with a large enough population with various population characteristics, the local government of Balikpapan City is also faced with regional development problems. Therefore, a strategic step is needed in order to carry out development optimally, while maintaining the stability of national unity and unity, especially in the implementation of regional development in order to regulate the implementation of regional development revenues and expenditures so that potential waste, misappropriation, and errors in budget management can be avoided.

The freedom to administer and make use of regional revenue streams in a way that aligns with the goals of local communities is granted to local governments. The implementation of regional autonomy will bring a logical consequence, that each region must have the ability to empower itself, both in economic interests, social community development, and meeting the needs to develop its region and be able to carry out improved services to the community [4].

Regional development is development that is all prepared and implemented by the region by utilizing existing resources in the area. Regional expenditure rises because of the need to provide a significant amount of development money to support the rapid growth of areas. The quantity of revenue in question determines how much is spent regionally [5]. Local government agencies that receive budgets must certainly be able to support the growth of regional spending so as to improve the welfare of the people of each city/regency in Indonesia [6].

What encourages the enactment of regional autonomy is due to the uneven development that has been running so far, causing inequality between the central and regional governments. Therefore, the central government allocates funds to local governments from the State Budget (APBN) which is allocated to fund regional needs in the implementation of Decentralization. The regional fiscal strategy aims to boost local indigenous income as the primary source of regional revenue, enabling regions to execute local governance and development in line with their specific requirements. This approach aims to reduce reliance on acquiring funds and subsidies from the central government [7]. Thus, efforts to increase local native income should be seen from a broader perspective or view, not only in terms of each region but in relation to Indonesia's economic unity [8]. Indeed, the funding sources for regional development have not sufficiently contributed to regional growth. This necessitates local governments to explore and enhance regional revenues, particularly focusing on augmenting local indigenous income sources [9]. Local Original Revenue (PAD) is all the rights of local governments that are recognized as net worth enhancers. [10] Regional revenues consist of local original revenues, equalization funds, and other legitimate regional revenues.

Regional expenditures are used to fund the implementation of government affairs under the authority of provinces or districts / cities consisting of mandatory affairs and elective affairs applied with statutory provisions in Government Regulation Number 58 of 2005. Compulsory affairs are very basic affairs related to basic rights and services to the community that must be held by the Regional Government. Meanwhile, elective affairs are government affairs that exist and have the potential to improve community welfare according to conditions, peculiarities, and potential regional advantages.

The independence of a region in the financial sector can be seen from how much the contribution of local original income to the income of the region. In reality, transfers from the central government are the main source of funds for local governments to finance their main day-to-day operations in terms of revenue, the ability of the regions is still insignificant [11]. Even the problem that often arises is the low ability of local governments to produce accurate predictions of regional revenues, so they cannot be collected optimally [5]. The long-term viability of the relocation is in question, primarily due to the unsustainable nature of current investment plans. This is largely attributed to the adverse effects on human capital, encompassing education and health, stemming from the income disparity between Jakarta and the new capital city, as well as the depreciation of produced capital [12].

Based on the background of the problem, problems faced by the Balikpapan City Government (Pemkot) can be formulated as far as the ability of the region to fund (regional expenditure) development in Balikpapan City independently as a partner of the National Capital (IKN) Nusantara from the use of Regional Revenue and Expenditure Budget (APBD) which includes Regional Original Revenue, Balancing Fund, Other Legal Regional Revenue in Balikpapan City. The purpose of this study is to determine the use of APBD in funding development in Balikpapan City.

What distinguishes this research from previous research is that this study focuses on the regional autonomy of Balikpapan City independently on the use of the regional budget in development to increase the economic growth of Balikpapan City as a partner of the Capital City of The Nusantara (IKN).

## **2 Methods**

The population in this study is the Balikpapan City Government APBD Realization Report 2010 - 2022 sourced from the Balikpapan City Financial and Asset Management Agency (BPKAD). The sampling technique is carried out by saturated sampling, meaning that the population meets certain criteria as desired by the researcher. Data analysis tools that include testing classical assumptions on data.

## **3 Results And Discussion**

The results of the regression equation can be seen in Table 1.

**Table 1.** Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.851 <sup>a</sup>	0.724	0.559	334903927367.370	3.115

a. Predictors: (Constant), LLPDYS, PAD, DP

b. Dependent Variable: BD

Source: SPSS Print Output Results, 2023

Based on the output in the Model Summary, it can be seen the value of the Coefficient of determination adjusted R Square. The adjusted R square value is 0.724 meaning 72.4% indicating that the variables Local Original Revenue (X1), Balancing Fund (X2), Other Legal Regional Revenue (X3) have an influence of 72.4% on Regional Expenditure (Y) in Balikpapan City while the remaining 27.6% (100% - 72.4% = 27.6%) is explained by other variables that were not included in this study.

In simultaneous significance testing (F-test) is performed to show whether all independent variables used in the regression model have a significant influence together on the dependent variable can be seen in Table 2.

**Table 2.** ANOVA<sup>a</sup>

Model	Sum of Squares	df	F	Sig.
Regression	1474382481854138200000000,000	3	4.382	0.073 <sup>b</sup>
1 Residual	560803202830443450000000,000	5		
Total	2035185684684581600000000,000	8		

a. Dependent Variable: BD

b. Predictors: (Constant), LLPDYS, PAD, DP

Source: SPSS Print Output Results, 2023

This Anova table shows the F test result of 4.382 with a significance value smaller than 0.05, which means that overall or together there is no significant effect between the variables Local Original Revenue (X1), Balancing Fund (X2), Other Legal Regional Revenue (X3) on Regional Expenditure (Y) in the Balikpapan City Realization Report.

**Table 3.** Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	390498385897,670	722298874571,393		0.541	0.612
PAD	<b>1.660</b>	<b>0.602</b>	<b>0.663</b>	<b>2.758</b>	<b>0.040</b>
DP	1.226	0.698	0.461	1.757	0.139
LLPDYS	-1.258	0.863	-.376	-1.458	0.205

a. Dependent Variable: BD

Source: SPSS Print Output Results, 2023

In the Table 3, Coefficients table, that partial regression testing (t test) where the level of significance is smaller than the level of 5% (0.05), based on the results of data processing, it can be known that the variables that have a significant influence are Regional Original Revenue (X1), while insignificant is the Balancing Fund (X2), and Other Legal Regional Income (X3) on Regional Expenditure (Y) in the Balikpapan City Realization Report in economic development.

### **3.1 The Relationship of Local Original Income with Regional Expenditure**

The first hypothesis states that the Regional Original Income variable has a dominant influence on the Balikpapan City Regional Expenditure variable with a positive and significant influence. This research is in line with [13], [14], [15], [16], [17] that regional Original Income has a positive and significant influence on Regional Expenditure.

The research findings indicate that regional indigenous revenue significantly impacts local government expenditure. This implies that as regional indigenous revenue increases, there is a corresponding rise in regional expenditure by the local government. [18]. This is because Regional Original Revenue (PAD) represents the local government's initiative to gather funds for the specific requirements of the concerned region, encompassing routine operations and regional development. PAD includes local taxes, regional fees, a portion of profits from regionally-owned enterprises, and other lawful sources of local revenue. Regional Original Revenue (PAD) is also a benchmark in the success of regional autonomy. The greater the ability of the region to collect Regional Original Revenue, the looser the allocation of Regional Expenditure. Local Original Revenue is considered as an alternative source of regional funding used by the regions as expenditure to carry out government and development and minimize regional dependence on subsidies from the central government.

### **3.2 The Relationship of Balancing Fund with Regional Expenditure**

The Balancing Fund has a positive and insignificant effect on Balikpapan City Regional Expenditure. This study has nothing in common with previous researchers [19] because the Balancing Fund in Balikpapan City experienced a significant decrease in revenue in 2013, the decline was caused by the declining Profit Sharing Fund from the tax / and non-tax sectors. From 2015 to 2017 there was a successive decline in profit sharing funds from the non-tax/natural resources profit sharing sector which had an impact on the receipt of Balikpapan City profit sharing funds so that the Balancing Fund receipts did not exceed the budgeted target, even though the profit-sharing fund was the component of the balancing fund that had the largest contribution to Balikpapan City's regional revenue revenues.

### **3.3 Other Legitimate Relationship of Local Revenue with Regional Expenditure**

Other Legitimate Regional Revenues have a negative and insignificant effect on Balikpapan City Regional Expenditure. This research is in line with [14] on the grounds that Other Legal Regional Revenue in Balikpapan City is the income that has the lowest nominal value among Regional Original Revenue and Balancing Fund. In the realization of Other Legal Regional Revenue decreased significantly in 2014 and 2015 so that Other Legal Regional Revenue in Balikpapan City could not be used as an alternative income in Balikpapan City Regional Expenditure.

## 4 Conclusion

This study aims to determine the extent of the independence of Balikpapan City as a Partner of the National Capital (IKN) of the Nusantara in East Kalimantan Province in the use of APBD for the economic development of Balikpapan City. Based on the discussion, the following conclusions can be drawn: The sources of regional revenue funds for Balikpapan City, which include Local Original Revenue (PAD), Balancing Funds, and Other Legal Regional Revenues as sources of use of funds in spending the area for the development of Balikpapan City.

Based on data analysis that there is a strong relationship between variables, this is evidenced by simultaneous correlation coefficients. Based on the results of the analysis, it simultaneously has an insignificant effect between Regional Original Revenue, Balancing Fund, and Other Legal Regional Revenue on Balikpapan City Regional Expenditure because Calculate is smaller than  $F_{table}$ , meaning that all variables together influence as a source of funding for regional expenditure.

Based on partial tests, it is known that Regional Original Revenue has a positive and significant effect, meaning that PAD is very supportive in funding regional expenditures, so that Balikpapan City can independently finance sources of regional expenditure funding, while the Balancing Fund and Other Legal Regional Revenues have a negative and insignificant effect on Balikpapan City Regional Expenditures.

Based on the regression results of the three independent variables, it shows that Regional Original Revenue has a dominant influence on Balikpapan City Regional Expenditure, PAD comes from regional taxes and levies, meaning that the main source of use of the Balikpapan City Regional Budget is derived from local original revenue directly, and supported from government funding sources.

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