Analysis Financial Ratio of Regional Government Budget in Assessing Financial Management Performance of Regional Government of Gianyar Regency

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Abstract: This research sought to assess the performance of regional financial management in Gianyar Regency during 2016-2020, as measured by the degree of fiscal decentralization ratio, the regional financial dependence ratio, the Original Regional Government Revenue effectiveness ratio, the regional financial efficiency ratio, and the regional expenditure compatibility ratio. In addition, this research also determined the regional financial capacity of Gianyar Regency, measured through the calculation of Share and Growth, the mapping of regional financial capacity, and the index of regional financial capacity. The research results revealed that the financial management performance of Gianyar Regency during 2016-2020 on average was in a bad condition. It can be seen from its low regional autonomy and its high dependency on the central government. In addition, the regional government has not been able to streamline the regional finances in which regional expenditures were greater than regional revenues. The distribution of regional budget in Gianyar Regency has not been evenly allocated so that the performance regional financial management was at worse state. However, viewed from the level of regional financial capacity, Gianyar Regency has very good potential, obstructed by its low level of Original Regional Government Revenue use to finance regional expenditures.

Keywords: *financial ratio; regional financial performance; regional financial capacity*

1. Introduction

The economic growth rate in a certain region can be used as a benchmark whether the region can manage to prosper its community. To achieve a prosperous regional community, the central government makes several efforts, one of which is by implementing the principle of decentralization. The important thing that needs to be considered in the implementation of decentralization in order to realize regional autonomy is the issue of regional finance. Accountability carried out by regional governments must contain clear information regarding their performance in carrying out their duties and responsibilities.

The assessment of financial management performance is intended to evaluate whether the policies and strategies that have been carried out are deemed effective and efficient, by which the assessment

result of the previous period performance can be used as a guidance in improving financial management performance in the next period [1]. A regional financial management performance is defined as the achievement of regional finance department which includes activities in realizing the Regional Government Budget and is carried out based on terms that have been established through policy or statutory provisions [2].

The level of regional financial independence of Gianyar Regency from 2014 to 2018 was still categorized as low explained by [3]. During this period, the Regional Government Budget structure of Gianyar Regency showed an increase of Regional Expenditures. However, its Regional Revenues was still dominated by Transfer Revenue compared to Original Regional Government Revenue. This can be seen from the Budget Realization Report for 2016 to 2020 period as presented in a comparison table below concerning realized regional expenditures and realized regional revenues of Gianyar Regency, as well as a table of realized regional revenues.

Table 1. Realized Regional Expenditures and Realized Regional Revenues of Gianyar Regency during 2016 – 2020

Year	Realized Regional Expenditures	Realized Regional Revenues
2016	Rp. 1.786.411.745.208,06	Rp. 1.682.778.978.224,48
2017	Rp. 1.922.948.829.851,82	Rp. 1.808.814.501.381,21
2018	Rp. 2.046.852.685.063,79	Rp. 2.002.646.874.600,04
2019	Rp. 2.229.485.809.062,64	Rp. 2.308.871.426.066,05
2020	Rp. 2.092.572.169.204,55	Rp. 1.884.701.453.345,19

Source: BPKAD Gianyar Regency

Table 2. Ellaboartion of Realized Regional Revenue of Gianyar Regency during 2016 – 2020

Year	PAD	Transfer Budget	Other legal regional revenues
2016	Rp. 529.864.617.918,42	Rp. 905.918.779.946,00	Rp. 246.995.580.360,06
2017	Rp. 662.753.474.609,35	Rp. 916.514.053.118,00	Rp. 229.546.973.653,86
2018	Rp. 770.204.849.840,88	Rp. 928.953.907.563,00	Rp. 303.488.117.196,16
2019	Rp. 997.478.368.034,78	Rp. 941.393.204.327,00	Rp. 369.999.853.704,27
2020	Rp. 545.869.872.998,86	Rp. 864.329.764.714,00	Rp. 474.501.815.632,33

Source: BPKAD Gianyar Regency

Referring to the data presented in table 1.1 and table 1.2, the researcher would like to conduct a research on the financial management performance of Gianyar Regency government. One method to analyze regional financial performance is to perform financial ratio analysis [4]. The results of financial ratio analysis can be used as a benchmark in assessing regional financial independence in financing its regional activities, measuring the level of effectiveness of regional government in realizing its Original Regional Government Revenue and further see the level of contribution from regional taxes and levies in realizing Original Regional Government Revenue [5]. Based on the explanation above, the objectives to be achieved in this research are:
   1) Analyzing the financial management performance of Gianyar Regency government based on the calculation results of Financial Ratio during the 2016 – 2020 budget period.

2) Analyzing the regional financial capability of Gianyar Regency government for the 2016 – 2020 budget period.

2. Literature Review

2.1 Regional Government Budget

Regional Government Budget is a regional government activity plan in the form of numbers that are described in detail and there are details of the source of revenue used to cover the costs of the expenditure to be made [6]. The Regional Revenue and Expenditure Budget is a record that is arranged in a row from top to bottom containing a description of regional revenues and expenditures or regional expenditures in a one year period[1].

2.2 Budget Realization Report

The Budget Realization Report is a foothold in carrying out government activities and regional development [7]. The Budget Realization Report is a description of the budget with the realization that has been achieved in one reporting period and is presented according to the elements of income, expenditure, transfer, and financing [8].

2.3 Regional Financial Performance

Performance is the achievement of what has been planned. Achievements that have gone according to what was planned or exceeding what was planned can be considered as very good performance. However, if the achievements did not meet or achieved less than what was planned, then the performance is considered poor [9]. Regional financial performance is an achievement obtained from the work results of regional finance department which includes activities of receiving and spending regional budget. The references or terms used can be in the form of policy or statutory provisions that have been issued by the regional government [10].

2.4 Financial Ratio Parameters In Regional Government

Through the Realized Budget Report, analysis of regional revenues can be carried out through[11][12]:

1) Ratio of Fiscal Decentralization Degree

Fiscal Decentralization Degree describes how much Original Regional Government Revenue contributes to Total Regional Revenue.

Table 3. Relational Pattern and Regional Independence Level

Financial Capability	Independence (%)	Relational Pattern
Very Low	0% - 25%	Instructive
Low	25% - 50%	Consultative
Medium	50% - 75%	Participative
High	75% - 100%	Delegative

2) Ratio of Regional Financial Dependence

Regional Financial Dependence describes the regional government dependence on budget transferred from the provincial or central government.

Table 4. Criteria of Regional Financial Dependence

Percentage (%)	Regional Financial Dependence
0,00 – 10,00	Very Low
10,01 – 20,00	Low

20,01 – 30,00	Medium
30,01 – 40,00	Adequate
40,01 – 50,00	High
>50,00	Very High

3) Ratio of PAD Effectiveness

PAD Effectiveness describes the regional government performance in realizing its Original Regional Government Revenue targets.

Table 5. Criteria of Financial Performance Effectiveness

Percentage of Financial Performance (%)	Criteria
More than 100	Very Effective
100	Effective
90 – 99	Fairly Effective
75 – 89	Slightly
Less than 75	Ineffective

4) Ratio of Regional Financial Efficiency

Regional Financial Efficiency describes the regional government performance efficiency in managing its Regional Revenues for Regional Expenditures.

Table 6. Criteria of Financial Performance Efficiency

Percentage of Financial Performance (%)	Criteria
More than 30	Inefficient
21 – 30	Slightly Inefficient
11 – 20	Fairly Efiicient
5 – 10	Efficient
Less than 5	Very Efficient

5) Ratio of Regional Expenditure Compatibility

Regional Expenditure Compatibility describes the regional government performance in regulating or managing each budget expenditure budget post to achieve balanced proportions. The proportion of Capital Expenditure Ratio to Total Expenditure is between 5% – 20%.

Table 7. Criteria of Direct and Indirect Expenditure Compatibility

Realized Budget to Total Expenditure (%)	Expenditure Compatibility Criteria
0 – 20	Incompatible
>20 – 40	Slightly Incompatible
>40 – 60	Fairly Compatible
>60 – 80	Compatible
>80 – 100	Very Compatible

6) Share and Growth

Share and Growth is used to show Original Regional Government Revenue capability to finance Regional Expenditures and Original Regional Government Revenue growth rate compared to the previous year

Table 8. Criteria of *Share* and *Growth*

Share dan *Growth* Index (%)	Criteria
0 – 50	Low
>50	High

7) Mapping of Regional Financial Capability

Mapping of Regional Financial Capability is used to determine regional capability based on the quadrant area determined from the results of Share and Growth analysis.
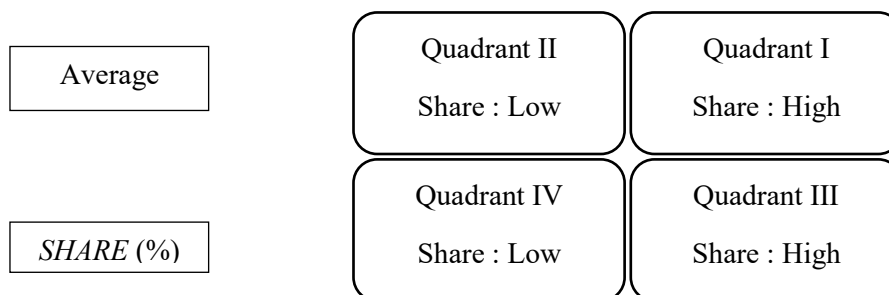
Average		Quadrant II Share : Low	Quadrant I Share : High
		Quadrant IV Share : Low	Quadrant III Share : High
SHARE (%)			

Figure 1. Mapping of Financial Capability

Table 9. Classifications of Regional Financial Capability Status Based on Quadrant Method

Quadrant	Condition
I	Ideal condition. Original Regional Government Revenue plays a big role in total expenditures and the region has the capability to develop local potentials.
II	Less than ideal condition. Original Regional Government Revenue provides low contribution on total expenditures, however Original Regional Government Revenue growth is high due to local potentials, so Original Regional Government Revenue has the chance of playing a big role total expenditures.
III	Less than ideal condition. Original Regional Government Revenue provides high contribution on total expenditures, however Original Regional Government Revenue growth is low. Original Regional Government Revenue plays a big role in total expenditures, but has low chance due to low Original Regional Government Revenue growth.
IV	Not ideal condition. Original Regional Government Revenue provides low contribution on total expenditures and Original Regional Government Revenue growth is low. Original Regional Government Revenue plays small role in total expenditures and has low chance due to low Original Regional Government Revenue growth.

8) Financial Capability Index

Financial Capability Index is used to determine the regional financial capability which is calculated through the analysis results of Share index, Growth index, and Elasticity index.

Table 10. Criteria of Regional Financial Capability Index

Financial Capability Index	Classification
0,00 – 0,33	Low
0,34 – 0,43	Medium
0,44 – 1,00	High

3. Research Method

This research used data collected by the Regional Financial and Asset Management Agency of Gianyar Regency during 2016 to 2020 period. Data in the form of Realized Budget Report were collected using documentation technique. The analytical technique used in this research was financial ratio analysis. In assessing regional financial performance, several ratio formulas were used as the following:

1) Formula of Fiscal Decentralization Degree

$$\frac{\text{Original Regional Revenue}}{\text{Total Regional Revenue}} \times 100\%$$

2) Formula of Regional Financial Dependence

$$\frac{\text{Transfer Revenue}}{\text{Total Regional Revenue}} \times 100\%$$

3) Formula of Original Regional Government Revenue Effectiveness

$$\frac{\text{Realized Original Regional Revenue}}{\text{Original Regional Government Revenue Target}} \times 100\%$$

4) Formula of Regional Financial Efficiency

$$\frac{\text{Total Realized Regional Expenditure}}{\text{Total Realized Revenue}} \times 100\%$$

5) Formula of Expenditure Compatibility

    a. Ratio of Indirect Expenditure to Total Expenditure

$$\frac{\text{Total Indirect Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

    b. Ratio of Direct Expenditure to Total Expenditure

$$\frac{\text{Total Direct Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

    c. Ratio of Capital Expenditure to Total Expenditure

$$\frac{\text{Realized Capital Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

And to calculate regional financial capability, this research made use the following formulas:

6) Formula of Share and Growth

$$\frac{\text{Original Regional Government Revenue}}{\text{Total Expenditure}} \times 100\%$$

7) Formula of Growth

$$\frac{\text{PADi}}{\text{PADi} - 1} \times 100\%$$

Explanation:

PADi : Original Regional Revenue in Period i

PADi-1 : Original Regional Revenue in Period i-1

8) Financial Capability Index

$$\text{Financial Capability Index} = \frac{XG + XE + XS}{3}$$

Explanation:

X_G : Growth Index (Original Regional Government Revenue Growth)
X_E : Elasticity Index (Direct Expenditure to Original Regional Government Revenue)
X_S : Share Index (Original Regional Government Revenue to Regional Expenditure)

4. Result and Discussion

Table 11. Financial Ratio Analysis Calculation Results

Explanation	Budget Year					Average
	2016	2017	2018	2019	2020	
Regional Financial Performance :						
Ratio of Fiscal Decentralization Degree	31%	37%	38%	43%	29%	36%
Ratio of Regional Financial Dependence	54%	51%	46%	41%	46%	48%
Ratio of Original Regional Government Revenue Effectiveness	105%	99%	96%	97%	62%	92%
Ratio of Regional Financial Efficiency	106%	106%	102%	97%	111%	104%
Ratio of Regional Expenditure Compatibility						
1. Direct Expenditure	40%	44%	39%	40%	44%	41%
2. Indirect Expenditure	60%	56%	61%	60%	56%	59%
3. Capital Expenditure	17%	21%	15%	11%	20%	17%
Regional Financial Capability :						
Share	30%	34%	38%	45%	26%	35%
Growth	116%	125%	116%	130%	55%	108%
Regional Financial Capability Index	0.93	0.96	0.86	0.88	0.83	0.89

From the research results viewed from the benchmarks presented by [12] and [11], it can be seen that the average level of financial performance of Gianyar Regency during the last 5 years was low in several ratios, including fiscal decentralization degree, Original Regional Government Revenue effectiveness, as well as direct and indirect expenditures. There was only one ratio showing good regional financial performance; the capital expenditure ratio. However, the regional financial performance on the ratio of regional financial dependence and regional financial efficiency were in very bad condition.

Viewed from the benchmarks in measuring the level of regional financial capability in Gianyar Regency, it was revealed that the average Growth ratio, which shows the growth rate of Original Regional Government Revenue, was very high. The Regional Financial Capability Index also showed a very high qualification, indicating a very good condition. However, the Share ratio showed that the Original Regional Government Revenue capability to finance Regional Expenditures was quite low.

This research results also showed that the level of regional capability based on the quadrant area specified in the regional financial capability map, obtained from the analysis results of the Share and Growth ratio within a period of 5 years was in less than ideal condition. This condition can be seen from the results of the Share ratio which had low average and the Growth ratio which had a high average. This showed the high growth of Original Regional Government Revenue due to local potentials, so

Original Regional Government Revenue has the opportunity to have a large share in covering the total regional expenditure. However, the level of Original Regional Government Revenue capability to finance Regional Expenditures was still low.

5. Conclusion
Based on the above discussion, several conclusions are drawn. First, the financial management performance of Gianyar Regency government in realizing regional development based on the calculation results of Gianyar Regency Regional Government Budget Financial Ratio during 2016 - 2020 Budget Period is in poor condition. This condition can be seen from its regional independence which is still lacking. The government cannot optimize its Original Regional Government Revenue, resulting in high dependence on assistance from the central government. In addition, the regional government is still unable to streamline its regional expenditures, making it greater than regional revenues. The distribution of regional expenditures in Gianyar Regency has not been evenly allocated, so that there are several regional expenditure posts that cannot be categorized as good. Second, the Regional Financial Capability of Gianyar Regency Government for the 2016-2020 Budget Period based on the calculation results can be categorized as a region that has good capability. However, in managing its regional potentials, the regional government still pays less attention to it so that it has not been able to optimize its regional potentials.

6. Acknowledgments

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