

Evaluation of Regional Financial Performance and Capability of Buru Selatan Regency (Fiscal Year 2019 – 2021)

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ABSTRACT

This study aims to assess regional financial performance, the financial capability proxied by the calculation of APBD Share and Growth, the financial capability of the region proxied by the calculation of the Regional Financial Capability Map, and the financial capability of the region proxied by the calculation of the Financial Capability Index (IKK) of Buru Selatan Regency from 2019 to 2022. The method used is quantitative descriptive.

The sample used is the Regional Revenue and Expenditure Budget (APBD) report of Buru Selatan Regency from 2019 to 2022. The analysis technique used is evaluating the financial performance ratio proxied by calculating the Independence Ratio, the Degree of Fiscal Decentralization Ratio, the Effectiveness Ratio, the Activity Ratio, the Expenditure Harmony Ratio, share and growth, and the Financial Capability Index (IKK).

The results of the study show that a) the regional financial performance of Buru Selatan Regency from 2019 to 2022 is classified in a deficient category since it is still included in the Instructive pattern or has not been capable of financing its government, development, and community service activities; b) the degree of Fiscal Decentralization of APBD from 2019 to 2022 in Buru Selatan Regency is classified in the poor category; c) regional financial performance of Buru Selatan Regency from 2019 to 2022 is also less effective; d) regional financial performance of Buru Selatan Regency from 2019 to 2022 proxied by calculating the Activity Ratio is still in the low category; e) regional financial performance of Buru Selatan Regency from 2019 to 2022 proxied by the calculation of the Expenditure Harmony Ratio is not optimal; f) map of regional financial capability of Buru Selatan Regency is included in the low quadrant; g) the Regional Financial Capability Index (IKK) of Buru Selatan Regency during the study period is included in the high classification.

Keywords: regional performance evaluation, regional financial capability

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I. INTRODUCTION

In the current era of regional autonomy, regional governments are expected to be capable of executing their authority to regulate their own regions according to their potential. This is guided by the government's obligatory and optional affairs stipulated in Law No. 23 of 2014 concerning Regional Government. This obligatory government affairs must be fully implemented through local government policies and programs. Policies and programs in government's obligatory affairs include basic services and non-basic services. Unlike the government's obligatory affairs, the government's optional affairs only apply to regions with certain potentials. The object of this research is the Government of Buru Selatan Regency. Buru Selatan City is a regency in Maluku, Indonesia, located on Buru Island. Its capital is Namrole. This regency was formed based on Law Number 32 of 2008, an expansion of Buru Regency. This newly inaugurated area has much potential in marine tourism and natural products that can compete with products from other areas in Maluku. Buru Selatan Regency has five districts.

Data of Budget and Realization of Local Revenue (PAD) of Buru Selatan Regency from 2019 to 2021

NO	Year	Budget (IDR)	Realization (IDR)	More or Less	
				(IDR)	(%)
1	2019	33.389.404.000	16.092.629.886	(17.296.774.113)	48,20
2	2020	24.513.685.000	20.127.402.571	(4.386.282.428)	82,11
3	2021	27.145.890.000	21.822.330.642	(5.323.559.357)	80,39

Data Source: Government of Buru Selatan Regency (2022)

The researcher tried to align this research according to La Ode Wahab (2022), who examined “Evaluation of Regional Financial Performance and Capability of the Jayapura City Government,” where the results of his research showed that the average independence ratio was included in the low category. The level of regional financial dependence in Jayapura City is in the sufficient category. The analysis showed that the level of government fiscal decentralization is in the low category. The effectiveness ratio of local original revenue is included in the very effective category. The results of share and growth analysis showed that both are included in the low category. The results of the IKK scale calculation showed that it is in the sufficient category

II. THEORY

Assessment of local government financial performance is carried out to achieve 3 objectives: improving regional government performance, allocating resources and making decisions, and realizing public accountability and improving institutional communication (Mardiasmo, 2008). The objectives of the performance measurement system, according to Ulum (2009), are: 1) providing an understanding of measures to assess management performance; 2) providing guidance to achieve predetermined performance targets; 3) monitoring and evaluating performance achievements and then comparing them with performance targets, and taking corrective actions to improve performance; 4) using it as a basis for objectively giving rewards and punishments for achievement that can be measured according to the agreed performance measurement system; 5) using it as a communication tool between subordinates and leaders to improve organizational performance, 6) identifying whether customer satisfaction has been fulfilled, 7) understanding the process of government agency activities, 8) ensuring that decision making is carried out objectively.

According to Sumarjo (2010), regional government financial performance is the output or result of activities or programs that will or have been achieved related to the use of regional budgets with measurable quantity and quality.

The independence ratio can be calculated using the following formula (Halim, 2014):

$$\text{Regional Independence Ratio (\%)} = \frac{\text{Local Revenue}}{\text{Balancing Fund}} \times 100$$

The fiscal decentralization ratio can be calculated using the following formula (Mahmudi, 2010):

$$\text{Fiscal Decentralization Degree Ratio (\%)} = \frac{\text{Local Revenue}}{\text{Balancing Fund}} \times 100$$

Table 2.2
Criteria for the Degree of Fiscal Decentralization

Percentage of Local Revenue (PAD) to Total Regional Revenue (%)	Criteria for the Degree of Fiscal Decentralization
0.00 – 10.00	Poor
10.01 – 20.00	Deficient
20.01 – 30.00	Fair
30.01 – 40.00	Sufficient
40.01 – 50.00	Good
>50.00	Very Good

Source: Research and Development Team of the Ministry of Home Affairs – Faculty of Social and Political Sciences of UGM (1991) in (Bisma and

The effectiveness ratio can be calculated using the following formula (Mahmudi, 2010):

$$\text{Effectiveness Ratio of PAD (\%)} = \frac{\text{Revenue Realization of PAD}}{\text{Revenue Target of PAD}} \times 100$$

Table 2.3
Criteria for the Effectiveness of Financial Performance

Percentage of Financial Performance (%)	Criteria
Above 100	Very effective
100	Effective
90 – 99	Effective Enough
75 – 89	Less Effective
Below 75	Not Effective

Source: (Mahmudi, 2010)

The financial capability index identifies regional financial capability based on three components: the average calculated growth index (growth), elasticity index, and role index (share).The maximum and minimum values for each of the three index components must be determined.The criteria for a high level of regional financial capability will be better (Muhibtari, 2014).

The financial capability index can be calculated using the following formula (Bisma and Susanto, 2010):

$$\text{Index } X = \frac{(X \text{ Value of Measurement Results}) - (X \text{ Value of Minimum Condition})}{(X \text{ Value of Maximum Condition}) - (X \text{ Value of Minimum Condition})}$$

$$IKK = \frac{X_G + X_E + X_S}{3}$$

Description:

X_G = Growth Index of PAD

X_E = Elasticity Index of PAD towards Direct Expenditure

X_S = Share Index of PAD towards Regional Budget (APBD)

Table 2.5 Criteria for Regional Financial Capability Level

Financial Capability Index	Classification
0.00 – 0.33	Low
0.34 – 0.43	Medium
0.44 – 1.00	High

Source: (Bappenas, 2003) in (Bisma and Susanto, 2010)

III. METHODOLOGY

This research used a quantitative approach. This research focuses on a case study on the evaluation of the regional financial performance and capability of Buru Selatan Regency using financial ratio analysis on the financial reports.After that, this study used descriptive and inferential statistics to conclude and analyze the research results.

IV. RESULT

The results of the calculation of the independence ratio can be seen in the following table:

Table 1. The ratio of Regional Budget Independence of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Local Revenue (PAD)	Fund Transfer	Independence Ratio	Correlation Pattern
2019	16,092,629,886	587,933,503,843	36.53	Instruktif
2020	20,127,402,571	516,534,980,436	25.66	Instruktif
2021	21,670,283,630	675,551,443,896	31.17	Instruktif
2022	18,882,962,973	622,535,155,981	32.97	Instruktif

Source: processed data

Table 4.2. The ratio of the Degree of Fiscal Decentralization of APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Local Revenue (PAD)	Total Regional Revenue	Fiscal Decentralization Degree Ratio	Criteria
2019	16,092,629,886	711,012,421,983	0.02	Poor
2020	20,127,402,571	649,936,435,171	0.03	Poor
2021	21,670,283,630	727,691,870,366	0.03	Poor
2022	18,882,962,973	641,418,118,954	0.03	Poor

Source: processed data

Table 3. Effectiveness Ratio of APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Local Revenue (PAD) Realization	Target of PAD	Effectiveness Ratio	Criteria
2019	16,092,629,886	33,389,404,000	0.48	Not Effective
2020	20,127,402,571	24,513,685,000	0.82	Less Effective
2021	21,670,283,630	27,145,890,000	0.80	Less Effective
2022	18,882,962,973	30,896,788,672	0.61	Not Effective

Source: processed data

Table 4. The ratio of Apparatus Expenditure in APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Total Expenditure/Operational	Total Expenditure	Apparatus Expenditure Ratio
2019	575,379,831,132	711,094,890,032	0.81
2020	533,846,419,345	652,171,170,736	0.82
2021	574,137,863,725	705,526,887,555	0.81
2022	539,240,164,811	650,270,827,582	0.83
Average			0.82

Source: processed data

Table 5 Ratio of Apparatus Expenditure in APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Total Expenditure/Operational	Total Expenditure	Public Expenditure Ratio
2019	172,907,414,068	711,094,890,032	0.24
2020	115,956,313,544	652,171,170,736	0.18
2021	160,258,203,021	705,526,887,555	0.23
2022	99,804,806,729	650,270,827,582	0.15
Average			0.20

Source: processed secondary data

Table 6. The ratio of Direct Expenditure in APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Total Direct Expenditure	Total Expenditure	Ratio of Direct Expenditure to Total Regional Expenditure
2019	385.189.388.633	711.094.890.032	0.54
2020	347.833.975.785	652.171.170.736	0.53
2021	352.667.821.393	705.526.887.555	0.50

Year	Total Direct Expenditure	Total Expenditure	Ratio of Direct Expenditure to Total Regional Expenditure
2022	331.719.724.253	650.270.827.582	0.51
Average			0.52

Source: processed secondary data

Table 7. The ratio of Indirect Expenditure in APBD of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Total Indirect Expenditure	Total Expenditure	Ratio of Indirect Expenditure to total Regional Expenditure
2019	325,905,501,399	711,094,890,032	0.46
2020	347,833,975,785	652,171,170,736	0.53
2021	352,859,066,162	705,526,887,555	0.50
2022	318,551,103,329	650,270,827,582	0.49

Source: processed secondary data

The share used as an indicator of regional capability can be calculated using the following formula:

$$Share (\%) = \frac{Local\ Revenue}{Total\ Expenditure} \times 100$$

Table 8. Calculation of APBD Share of Buru Selatan Regency for the Fiscal Year 2019 - 2022

Year	Local Revenue (PAD)	Total Expenditure	Share Ratio
2019	16,092,629,886	711,094,890,032	0.02
2020	20,127,402,571	652,171,170,736	0.03
2021	21,670,283,630	705,526,887,555	0.03
2022	18,882,962,973	650,270,827,582	0.03
Average			0.03

After calculating share, it is necessary to calculate PAD growth with the following formula:

$$Growth\ PAD(\%) = \frac{PAD_t - PAD_{t-1}}{PAD_{t-1}} \times 10$$

Table 9 Growth of Local Revenue of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Local Revenue (PAD)	Local Revenue (PAD) t-1	Growth
2019	16,092,629,886	-	-
2020	20,127,402,571	16,092,629,886	0.25
2021	21,670,283,630	20,127,402,571	0.08
2022	18,882,962,973	21,670,283,630	-0.13
Average			0.05

Source: processed data

2. Analysis of Regional Financial Capability Map

The value of share obtained is 3%, and the growth data is 5%. These results are classified by mapping the regional financial capability based on the Quadrant Method, so the regional financial capability of Buru Selatan Regency will be shown below.

QUADRANT I Share: high Growth: high	QUADRANT II Share: low Growth: high
QUADRANT III Share: high Growth: low	QUADRANT IV Share: 3% low Growth: 5% low

Figure 1. Regional Financial Capability Map

3. Financial Capability Index (IKK)

The Financial Capability Index (IKK) can be analyzed by calculating the index of each component using the following equation:

$$Index X = \frac{(X \text{ Value of Measurement Results}) - (X \text{ Value of Minimum Condition})}{(X \text{ Value of Maximum Condition}) - (X \text{ Value of Minimum Condition})}$$

Based on the equation above, the IKK formula can be written as follows:

$$IKK = \frac{X_G + X_E + X_S}{3}$$

a. Growth Index Value

The growth index of local revenue can be seen in the following table:

Table 10. Growth Index of Local Revenue of Buru Selatan Regency for the Fiscal Year 2019-2022

PAD Delta	Minimum	Max-Min	Index
0.25	(0.13)	0.38	1
0.08	(0.13)	0.38	0.54
(0.13)	(0.13)	0.38	0.00
Amount			1.54

Source: processed data

$$X_G = \frac{\text{Total index}}{3}$$

$$X_G = \frac{1.54}{3} = 0.51$$

b. Elasticity Index Value

Elasticity value can be calculated by the following formula:

$$Elasticity (\%) = \frac{\text{Local Revenue}}{\text{Total Direct Expenditure}}$$

Table 11. Elasticity of the Local Revenue of Buru Selatan Regency for the Fiscal Year 2019-2022

Year	Local Revenue (PAD)	Total Direct Expenditure	Elasticity
0.25	(0.13)	0.38	1
0.08	(0.13)	0.38	0.54
(0.13)	(0.13)	0.38	0.00
Amount			1.54

Table 4.13. Share Index of Local Revenue of Buru Selatan Regency for the Fiscal Year 2019- 2022

Elastisitas	Minimum	Max-Min	Indeks
0.04	0.04	0.02	0.00
0.06	0.04	0.02	1.00
0.06	0.04	0.02	1.22
0.06	0.04	0.02	0.94
Amount			3.16

$$X_E = \frac{3.16}{3} = 1.05$$

c. Share Index Value

Share index values can be seen in the following table:

Table 4.14. Elasticity Index of Local Revenue of Buru Selatan Regency for the Fiscal Year 2019-2022

Elastisitas	Minimum	Max-Min	Indeks
0.02	0.02	0.01	0.00
0.03	0.02	0.01	1.00
0.03	0.02	0.01	0.98
0.03	0.02	0.01	0.78
Amount			2.76

$$X_S = \frac{2.76}{3} = 0.92$$

d. Financial Capability Index

The Financial Capability Index of Buru Selatan Regency for the Fiscal Year 2019-2022 is as follows:

$$IKK = \frac{0.51 + 1.05 + -0.92}{3} = 0.83$$

The value of 0.83, based on the Criteria for the Level of Regional Financial Capability, is included in the High category.

V. CONCLUSION

Based on the results and discussion presented in the previous chapter, it can be concluded that:

- 1) The regional financial performance of Buru Selatan Regency from 2019 to 2022 is included in a deficient category since it is still classified in the Instructive pattern or has not been able to independently finance government, development, and community service activities.
- 2) The degree of Fiscal Decentralization in APBD of Buru Selatan Regency for the Fiscal Year 2019-2022 is classified in the poor category.
- 3) The regional financial performance of Buru Selatan Regency from 2019 to 2022 is also classified in a less effective category.
- 4) The regional financial performance of Buru Selatan Regency from 2019 to 2022, proxied by the Activity Ratio, is also still a relatively low category.
- 5) The regional financial performance of Buru Selatan Regency from 2019 to 2022, proxied by the Expenditure Harmony Ratio, is classified in the optimal enough category.
- 6) The Map of the Regional Financial Capability of Buru Selatan Regency is included in the low quadrant.
- 7) The Regional Financial Capability Index of Buru Selatan Regency during the study period is included in the High category.

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