

ANALYSIS OF THE FINANCIAL PERFORMANCE OF THE REGIONAL GOVERNMENT OF CENTRAL BENGKULU REGENCY WITH THE APPROACH OF THE PERFORMANCE MEASUREMENT

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Abstract

This study aims to analyze the financial performance of the regional government of Central Bengkulu Regency with a performance measurement system approach using financial ratio indicators, such as the effectiveness ratio, fiscal decentralization ratio, efficiency ratio, and growth ratio. This research uses a quantitative descriptive approach with secondary data in the form of the 2019-2023 Budget Realization Report. The data collection technique was carried out with a documentation study accessed from the official website of the DJPK (Directorate General of Fiscal Balance). The results showed that the average effectiveness ratio was classified as effective with a figure of 94.95%. In contrast, the fiscal decentralization ratio only reached an average of 3.30% with a very low category. On the other hand, the average fiscal decentralization ratio reached 3089.50%, indicating very high inefficiency. Meanwhile, the PAD growth ratio experienced fluctuations but in a positive direction.

Keywords: Effectiveness Ratio, Efficiency Ratio, Financial Performance, Fiscal Decentralization Ratio, Growth Ratio

INTRODUCTION

Local government financial performance is the ability of regions to use and manage their original financial resources to support the running of the government system, regional development, and services to the community (Mianti & Fachruzzaman, 2020). The success of regional development and community services depends on the financial management aspects of the local government itself (Sari & Mustanda, 2019). Financial performance can be assessed with a performance measurement system approach using financial ratio indicators, including effectiveness, efficiency, fiscal decentralization, and growth ratios (Rahayu et al., 2024).

Performance measurement is an important instrument for evaluating regional financial performance (Juniarti & Putri, 2021; Mahsun, 2013). The performance measurement system involves the assessment of non-financial and financial performance aimed at creating good governance. Through the implementation of a performance measurement system, local

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governments assess the efficiency of budget use, the effectiveness of revenue realization, the appropriateness of expenditure allocations, and the quality of public services.

In 2003, Bengkulu Province underwent expansion. Central Bengkulu Regency was officially formed on June 24, 2008 and is one of the youngest regencies in the province. As a New Autonomous Region (DOB), Bengkulu Tengah Regency faces a major challenge in improving its financial management where PAD is relatively low, while the level of dependency on central government transfer funds is high. Therefore, although the low PAD is known, this is the reason for the researcher's interest in conducting further research to evaluate how regional financial performance is managed, whether it is effective, efficient, and grows sustainably.

In a similar study, Zuhri & Soleh (2016) conducted research on analyzing the financial performance of the 2011-2014 Kaur district government. The results of the study, the Regional Financial Independence Ratio is very low instructive relationship pattern (interval 0%-25%). The ratios in 2011-2014 were 1.89%, 1.84%, 2.29%, and 3.74%. Meanwhile, the PAD Effectiveness Ratio for 2011, 2013, and 2014 was classified as less effective, with ratio values of 77.7%, 87.1%, and 88%. However, in contrast to 2012 which showed very effective finances, reaching 107.3%. The Operating Expenditure Ratio was good with an annual average of 76.7%, while the Capital Expenditure Ratio was not good with an annual average of only 23.2%. PAD growth experienced gradual development. In 2012, it was classified as low (14.26%), increased to the medium category in 2013 (32.86%), and the high category in 2014 (88.53%). Overall, the average PAD growth per year during the observation period was 45.22%, classified as medium growth.

Based on the above background, the study aims to analyze the financial performance of the regional government of Central Bengkulu Regency with a performance measurement system approach using financial ratio indicators, such as effectiveness, fiscal decentralization, efficiency, and growth ratios.

LITERATURE REVIEW

Regional Financial Performance

Performance is a description of the achievement of activities, programs, or policies to realize the goals, objectives, mission, and vision of the organization (Bastian, 2006). Local government financial performance, in particular, is a description of the extent to which local governments manage their financial resources effectively, efficiently, and responsibly order to achieve development goals and provide optimal public services.

Onibala et al. (2021), state that financial performance is the process of periodically evaluating operational effectiveness based on previously established goals, standards and criteria. Government Regulation Number 8 of 2006 supports the definition of performance as program results or the achievement of quantity and quality.

The enactment of Law Number 33 of 2004 Article 66 Paragraph (1), local governments are given the authority to regulate and manage their own government affairs. This provides opportunities for local governments to develop their regions according to their abilities, needs, and priorities (Hanafiah et al., 2016). However, policy dynamics and fiscal challenges demand more innovative and sustainable financial management to improve effectiveness and efficiency.

Performance Measurement System

Performance measurement in the public sector requires a clear understanding of performance measures and performance indicators. Performance measures refer to quantitative aspects that provide important data about products, services and the processes used to achieve them (Moeheriono, 2014). Meanwhile, performance indicators serve as gauges or pointers that provide an overview of the extent to which organizational goals and objectives are achieved. This indicator focuses more on the end result and progress in achieving the target. Performance measurement is important to know how well local governments manage their finances, not only showing how public money is used, but can show that money is used economically, effectively and efficiently (Mianti & Fachruzzaman, 2020).

According to Mardiasmo (2002), there are three main elements in performance measurement which are often associated with the three E's concept, namely economy, efficiency, and effectiveness or what is known as Value for Money, namely:

1. Economic, relating to the extent to which the government as a public sector organization is able to reduce the efficient use of resources to avoid wasteful spending.
2. Efficiency, is the effort to produce the maximum possible output or use the minimum possible input to achieve the targeted output.
3. Effectiveness, referring to the extent to which the results of a program are on target, can be interpreted as a comparison between outcomes and outputs.

Although many measurements can be used to analyze the financial performance of local governments, researchers only concentrate on four ratios, namely the effectiveness, fiscal decentralization, efficiency, and growth ratios. Overall, the four ratios complement

each other and provide a comprehensive picture of the condition and quality of local financial management. These ratios are considered to represent the fundamental elements of measuring regional financial performance because they answer the main problems related to revenue optimization, expenditure management, fiscal decentralization, and the direction of regional financial growth. Analyzing the ratios on a regular basis can identify what needs to be improved and ensure that the policies implemented have a positive impact on the welfare of the community.

Budget Realization Report

Based on the conceptual framework of Government Regulation (PP) No 71/2010, paragraphs 61-62, the budget realization report contains a summary of resources, allocations, and uses of financial resources managed by the central or local government, as well as a comparison of the budget and its implementation during the reporting period. The elements of the budget realization report are:

1. Revenue-LRA is revenue received by the general treasurer of the state or region from other government entities to increase the balance of a particular fiscal year to which the government is entitled and not returned.
2. Expenditures are all expenditures made by the state or regional public treasurer, resulting in a decrease in the balance of a particular fiscal year and not generating revenue back to the government.
3. Transfers are transfers of funds from one reporting entity to another, such as equalization funds and revenue sharing.
4. Financing is an expenditure or revenue that does not affect the entity's net assets and must be paid in the relevant budget year and the next budget aimed at covering deficits.

Local Revenue (PAD)

As outlined on Article 1 point 18 of Law No. 33/2004 on Fiscal Balance between Central and Regional Governments, Regional Original Revenue is a source of local revenue and is collected by local governments in accordance with laws and regulations. Meanwhile, Article 3 of Law Number 33 of 2004, PAD aims to give local governments the authority to fund the implementation of regional autonomy according to the potential of each region

Local governments must increase their own-source revenue (PAD) to increase autonomy, improve development, and reduce central government contributions. According to Law No. 33/2004, Article 157 Local government, PAD is divided into four categories:

1. Local taxes, taxes levied by local governments based on laws and regulations and stipulated through local regulations. Taxes are subject to various things, such as individuals or entities, movable or immovable objects, such as hotel taxes, restaurants, entertainment, billboards, parking, and so on.
2. Regional Retribution, a local levy paid by the community for the utilization of facilities or the use of services in return for real services, such as health, waste disposal, funerals and so on.
3. The results of the management of separated regional assets, is the regional revenue from the profit share of the company's capital participation, both owned by BUMD, BUMN, and private.

Other legal PAD, is revenue from various sources owned by the local government, such as proceeds from the sale of non-separated assets, current account services, interest income, gains on the difference in rupiah exchange rates against foreign currencies, commissions, deductions, or other forms of sales and services by the region.

METHODS

Research Type and Design

The type of research is descriptive research with a quantitative approach. Sugiyono (2018) states that quantitative descriptive research aims to describe the characteristics of a population or phenomenon using quantitative data. This research collects numerical data which is statistically analyzed to provide an overview of the conditions under study. Meanwhile, according to Suryabrata (2014), descriptive research describes problems as they are, collects data and explains the data as needed.

Operational Definition and Measurement of Variables

Table 1. Operational Definition and Measurement of Variables

Indicator	Definition	Criteria	Formula and Source
Effectiveness Ratio	Measures the government's ability to realize PAD compared to the target.	a. >100%: Highly Effective b. 90%–100%: Effective c. 80%–90%: Moderately Effective d. 60%–80%: Less Effective e. <60%: Not Effective	$\frac{PAD\ Realization}{PAD\ Budget} \times 100\%$ Source: Mahmudi (2016)
Fiscal Decentralization Ratio	Indicates the level of authority and responsibility of the central government to the regions to implement development.	a. 0%–10%: Very Low b. 10%–20%: Low c. 20%–30%: Medium d. 30%–40%: Enough e. 40%–50%: High f. >50%: Very High	$\frac{PAD\ Realization}{Total\ Revenue} \times 100\%$ Source: Christia & Ispriyarso (2019)

Efficiency Ratio	Compares expenses incurred with revenue realization.	a. <5%: Highly Efficient b. 5%–10%: Efficient c. 11%–20%: Moderately Efficient d. 21%–30%: Less Efficient e. >30%: Inefficient	$\frac{\text{Shop}}{\text{PAD}} \times 100\%$ Source: Mahmudi (2016)
Growth Ratio	Measures the government's ability to maintain and increase revenue from year to year.	a. 0%–25%: Low b. 25%–50%: Medium c. 50%–100%: High	$\frac{(\text{PAD year } n - \text{PAD year } (n - 1))}{\text{PAD year } (n - 1)} \times 100\%$ Source: Zuhri & Soleh (2016)

Data Type and Source

The type of data is secondary data, which is data obtained from other parties or other sources that are processed and obtained through available documents. Research data in the form of Budget Realization Reports for 2019-2023 were taken from the official website of the DGT (Directorate General of Fiscal Balance).

Data collection and data analysis methods

The research used the documentation method. The documentation method is a data collection technique, collecting and analyzing relevant documents to obtain the data needed. In the study, the documents used were the 2019-2023 Central Bengkulu Regency Government Budget Realization Report.

The analysis method used is financial ratio analysis, including four main indicators, namely the effectiveness ratio, fiscal decentralization ratio, efficiency ratio, and growth ratio. The ratios are calculated based on Budget Realization Report data and analyzed descriptively quantitatively to describe regional financial performance over the past five years.

RESULTS AND DISCUSSION

Effectiveness Ratio

The effectiveness ratio shows the local government's ability to realize the Local Original Revenue (PAD) target.

Table 2. Effectiveness Ratio

Year	PAD Realization	PAD Budget	Effectiveness Ratio (%)	Criteria
2019	23.036.859.909,48	22.573.596.532,57	102,05	Highly Effective
2020	23.343.267.689,76	20.911.822.644,14	111,63	Highly Effective
2021	23.368.837.146,87	34.256.487.840,00	68,22	Less Effective
2022	27.646.156.332,27	29.372.150.001,00	94,12	Effective
2023	32.655.027.996,60	33.072.724.583,00	98,74	Effective
Average			94,95	Effective

The calculation results during the 2019-2023 period, this ratio fluctuated but remained in the effective category with an average of 94.95%. The success in 2019 and 2020 was influenced by the optimization of local tax and levy collection that went well. However, in 2021 there was a sharp decline due to low intensification and extensification of PAD collection, weak supervision of regional revenue, and not maximizing the utilization of new revenue potential. However, in 2022 and 2023, performance improved again as economic activity recovered and PAD management improved. Overall, the effectiveness trend tends to improve

Ratio Fiscal decentralization

The Fiscal Decentralization Ratio describes the contribution of local own-source revenue to total local revenue.

Table 3. Fiscal Decentralization Ratio

Year	PAD Realization	Total Revenue	Fiscal Decentralization Ratio (%)	Criteria
2019	23.036.859.909,48	799.632.993.226,54	2,88	Very Low
2020	23.343.267.689,76	771.880.695.089,78	3,02	Very Low
2021	23.368.837.146,87	767.382.612.414,87	3,05	Very Low
2022	27.646.156.332,27	828.813.309.891,27	3,34	Very Low
2023	32.655.027.996,60	776.558.962.427,60	4,21	Very Low
Average			3,30	Very Low

Based on the table 3, it can be seen that this ratio is very low with an average of only 3.30%. The low ratio is due to the high dependence of Central Bengkulu Regency on transfer funds from the central government. This also shows that the local government has not succeeded in optimizing the potential of PAD from the region's leading sectors. In addition, the lack of innovation in tax and levy collection policies is also an inhibiting factor. Although the ratio has increased from year to year, the increase has not been significant and remains in the very low category. The visible trend is a slow increase and shows the need for more aggressive efforts in strengthening fiscal independence.

Efficiency Ratio

The efficiency ratio measures the ratio between regional expenditure and PAD obtained.

Table 4. Efficiency Ratio

Year	Shop	PAD	Efficiency Ratio (%)	Criteria
2019	805.737.330.394,61	23.036.859.909,48	3497,60	Inefficient
2020	758.041.847.105,75	23.343.267.689,76	3247,37	Inefficient
2021	790.593.097.550,90	23.368.837.146,87	3383,11	Inefficient
2022	794.012.157.030,67	27.646.156.332,27	2872,05	Inefficient
2023	799.192.919.938,50	32.655.027.996,60	2447,38	Inefficient

Average	3089,50	Inefficient
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The results of the above calculations show that Central Bengkulu Regency has a very high efficiency ratio with an average of 3089.50%, which means that regional expenditure is much greater than the PAD obtained. This indicates serious inefficiencies in the management of the regional budget. Factors influencing this condition include the large allocation of operational expenditures compared to productive expenditures, less than optimal prioritization of regional expenditures, and weak control and evaluation of budget use. However, there were improvements in efficiency ratios in 2022 and 2023, indicating initial efforts to improve regional financial efficiency.

Growth Ratio

The PAD growth ratio shows the region's ability to increase its revenue from year to year.

Table 5. Growth Ratio

Year	PAD n	PAD n-1	Growth Ratio (%)	Criteria
2019	23.036.859.909,48	23.500.020.785,63	-1,97	Negative
2020	23.343.267.689,76	23.036.859.909,48	1,33	Positive
2021	23.368.837.146,87	23.343.267.689,76	0,11	Positive
2022	27.646.156.332,27	23.368.837.146,87	18,30	Positive
2023	32.655.027.996,60	27.646.156.332,27	18,12	Positive
Average			7,18	Positive

In the table 5 above, it can be seen that over the past five years this ratio has shown a relatively positive trend with an average growth of 7.18%. Although in 2019 there was a decrease of 1.97%, growth increased again in the following years, especially in 2022 and 2023 with 18.30% and 18.12% respectively. The average growth of PAD is still relatively low and not enough to significantly improve the regional financial structure or reduce dependence on the central government. The trend shows a positive direction but requires a sustainable strategy to maintain and improve it.

CONCLUSION

Looking on the analysis of the financial performance of the regional government of Central Bengkulu Regency using the performance measurement system approach, it can be concluded that in general the regional financial performance shows quite effective results in terms of effectiveness, but still requires significant improvement in terms of efficiency and fiscal decentralization. The average effectiveness ratio of 94.95% indicates that the local government is able to realize the PAD target optimally and is in the effective category. In contrast, the very high efficiency ratio of 3089.50% reflects serious inefficiencies as local

expenditure far exceeds own-source revenue generated. The average fiscal decentralization ratio of only 3.30% indicates a very low level of fiscal decentralization and a high dependence on central transfer funds. Meanwhile, the PAD growth ratio shows a fluctuating but positive pattern with an average of 7.18%, especially in 2022 and 2023 with growth of 18.30% and 18.12% respectively. These findings confirm the need to optimize PAD and manage expenditure more efficiently in order to realize good and sustainable regional financial performance.

Suggestions for the regional government of Central Bengkulu Regency are expected to minimize expenditure by considering the priority scale and conducting a comprehensive evaluation of regional expenditure so that it is more targeted and does not exceed the capacity of regional income. Local governments must also optimize the increase in PAD so as not to continue to depend on the central government, and the government is advised to be more active in supporting local economic sectors that contribute directly to PAD. As for future research, it is recommended that financial performance measurement tools are not only limited to ratio analysis and regional revenue, but can also include expenditure and financing analysis, besides that it can be added with qualitative approaches such as interviews or direct observation so that the conclusions produced are more in-depth and accurate. Future similar research can expand the scope by comparing several expansion areas in Bengkulu Province in order to obtain a comparative picture of financial performance between regions.

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