LOCAL GOVERNMENT FINANCIAL PERFORMANCE AND ITS AFFECTING FACTORS

Tiya Maylafaz Saqina [1], Husriah [2], Wilda Fatmala [3]*

[1,2,3]Politeknik Baubau, Baubau, Indonesia

CORRESPONDING AUTHOR

Name   : Husriah

Address : Street Limbo Wolio , Baubau

E-mail : husria93@gmail.com

A B S T R A C T

The purpose of this study was to determine the Financial Performance of the South Buton Regency Regional Government and the Factors that Influence It. This research was conducted at the Regional Finance and Asset Agency of South Buton Regency. The population in this study was the Regional Revenue and Expenditure Budget Realization Report (APBD). The sample used in this study was the Regional Revenue and Expenditure Budget Realization Report of South Buton Regency for 2016-2022. The type of research used in this study is a descriptive approach with a quantitative method using primary data and secondary data. The data collection techniques used in this study are documentation and interview techniques. The data technique uses ratio analysis and SPSS 29. The results of the study indicate that the percentage of Regional Financial Independence is in an instructive pattern with very low financial capability, while the Regional Government Financial Performance based on the Effectiveness Ratio is in the Effective criteria range, based on the Activity Ratio indicating that the South Buton Regency Regional Government prioritizes Operating Expenditures and Capital Expenditures, while the Growth Ratio shows that the Regional Original Income fluctuates from year to year. Balancing funds do not have an impact on the financial performance of the South Buton Regency Regional Government, Regional Expenditure does not have an impact on financial performance, Regional Taxes do not have an impact on financial performance.

INTRODUCTION

Effective, efficient, economical, transparent and responsible financial management by local governments, in accordance with the supremacy of law, is an important aspect in promoting regional autonomy. Decentralization refers to the implementation of regional autonomy, where local governments are given the responsibility and authority to address problems and oversee the management of their respective regions. (Hafizi & Amalia, 2022).

These factors influence the development of power and demands for regional autonomy to carry out various government functions more independently but still require central support in planning, implementation, supervision, evaluation, and accountability. The government must be brave and able to maximize the potential it has as a consequence of implementing regional autonomy. (Siregar & Mariana, 2020). The aim of regional fiscal independence in the APBD is to assess the ability of the regional government to finance its own government activities, development and services to the community, which has paid taxes and levies as a source of required regional income.(Rahma *et al.*, 2022).

Ratio analysis is a method used to evaluate the financial management of local governments in terms of their regional budgets. During the financial ratio analysis process, patterns are identified by comparing the results of a period with the results of the previous period. Financial metrics such as Growth Ratio, Regional Financial Independence Ratio, Activity Ratio, and Effectiveness Ratio can be used to assess government performance. (Machmud *et al*., 2014). The financial performance of local governments refers to the output or measurable results achieved through the use of the regional budget. Evaluation of public services is a reliable method for measuring regional capabilities. This success is demonstrated through financial ratios obtained from the calculation of the APBD which is summarized from the Regional Head's Accountability Report. (Siregar & Mariana, 2020).

Transfer revenue is still the main source of regional revenue in South Buton Regency, while the original regional revenue is still very low. In fact, the original regional revenue of South Buton Regency only contributes an average of 3% to the total regional revenue. The findings were obtained

from a comparison of the aggregate PAD (Community Income) of South Buton Regency with the total regional transfer revenue for the 2016-2020 period. Thus, it is impractical to anticipate that the main source of funding for regional spending in South Buton Regency is the initial regional revenue (PAD). This study will analyze the fiscal performance of the city government and examine the factors that influence it, depending on the incident.

METHODOLOGY

This research is classified as descriptive research, using quantitative methodology that utilizes primary and secondary data. The study focuses on the analysis of the Regional Revenue and Expenditure Budget Realization Report (APBD). The specific sample for this study is the Regional Revenue and Expenditure Budget Realization Report of South Buton Regency for the period 2016-2022. This report contains actual data on the amount of Revenue, Balancing Funds, Regional Taxes, and Regional Expenditures. The data in this study were examined and processed using ratio analysis and SPSS 29 (Statistical Program for Social Science). Ratio analysis is used to assess financial performance, while SPSS is used to identify variables that influence financial success.

RESULT & DISCUSSION
Independence Ratio

Regional dependence on transfer income (information from external sources) is expressed by the Regional Financial Independence Ratio. In other words, regions with a higher financial independence ratio are less dependent on external aid, and vice versa (Halim, 2007). The Regional Financial Independence Ratio of South Buton Regency for 2016-2022 can be seen in Table 1 below.

Table 1. Financial Independence Ratio of the Regional Government of South Buton Regency

Year	Locally-generated revenue	Transfer Income	Independence Ratio	Financial Capability
2016	7.666.531.859	492.918.999.730	1,56%	Very Low
2017	8.494.630.034	474.103.390.706	1,79%	Very Low
2018	25.863.320.999	543.298.875.176	4,76%	Very Low
2019	14.985.034.947	564.300.992.490	2,66%	Very Low
2020	19.877.732.842	571.471.059.480	3,48%	Very Low
2021	21.571.251.539	601.555.287.809	3,59%	Very Low
2022	30.355.304.970	596.323.580.151	5,09%	Very Low
Average	**18.401.972.456**	**549.138.883.649**	**3,35%**	**Very Low**

Source: Data processed (2024)

The financial independence ratio of South Buton Regency was 1.56% in 2016, 1.79% in 2017, and 4.76% in 2018 as indicated by the Regional Financial Independence Ratio. However, this ratio experienced a significant increase in 2018. However, this ratio experienced a significant decrease in 2019, which fell to 2.66%. It then increased to 3.48% in 2020, 3.59% in 2021, and 5.09% in 2022. The pattern of instructive relationships with very low financial capabilities is consistently indicated by the percentage of the regional financial independence ratio each year. The average regional financial independence ratio of South Buton Regency for the past seven years (2016-2022) of 3.35% indicates a pattern of instructive relationships and very low financial capabilities.

From the description, it can be seen that the influence of the central government is greater than the autonomy of the South Buton Regency Government in financing regional initiatives. In other words, the South Buton Regency Government still relies on budget allocations from the central government. This study is in line with the BPK findings which show that the majority of local governments in Indonesia still receive funds from the central government through transfer funds. Around 97.62% of the 378 district/city governments analyzed are not yet independent, while only 2.12% are on the path to independence. Even fewer, around 0.26% are already independent (BPK, 2021). The South Buton Regency Government also experienced something similar.

PAD Effectiveness Ratio

The Financial Effectiveness Ratio of South Buton Regency for 2016–2022 illustrates the extent to which the regional government is able to achieve the targeted Regional Original Income (PAD) compared to the target set based on the actual regional potential. (Halim, 2012). The table below shows the Financial Effectiveness Ratio of South Buton Regency from 2016 to 2022.

Tabel 2. Rasio Efektivitas Keuangan Pemerintah Daerah Kabupaten Buton Selatan

Tahun	Anggaran PAD	Realisasi PAD	Rasio Efektivitas	Kriteria Efektivitas
2016	4.507.521.630	7.666.531.859	170,08%	Sangat Efektif
2017	6.557.485.799	8.494.630.034	129,54%	Sangat Efektif
2018	5.749.372.807	25.863.320.999	449,85%	Sangat Efektif
2019	16.480.521.109	14.985.034.947	90,93%	Efektif
2020	19.126.644.556	19.877.732.842	103,93%	Sangat Efektif
2021	18.693.051.625	21.571.251.539	115,40%	Sangat Efektif
2022	30.163.316.095	30.355.304.970	100,64%	Sangat Efektif
Rata-rata	**14,468,416,231**	**18,402,000,000**	**127,18%**	**Sangat Efektif**

Source: Data processed (2024)

The average financial effectiveness ratio of South Buton Regency for the last seven years (2016-2022) is 127.18% with very effective criteria. The South Buton Regency Regional Government for the last seven years has been very effective as evidenced by the effectiveness ratio parameter. Therefore, the South Buton Regency Regional Government must maintain or improve its performance in order to achieve superior results in the coming years. This study is in line with the financial performance of the South Buton Regency Regional Government in 2016-2020 as studied by Nurdin (2023). Nurdin explained that the efficacy ratio can be used to classify the financial performance of South Buton Regency in the very effective category. Similar results also occurred in this study in the 2018-2022 period, where the regional financial performance was classified as very effective.

Activity Ratio

Mahmudi (2018) explains how regions should allocate their funds for development (direct expenditure) and routine expenditure (indirect expenditure). A larger portion of funds allocated to routine expenditure results in a lower percentage of development investment allocated to infrastructure and community economic facilities.

Table 3. Regional Financial Activity Ratio of South Butoni Regency

Year	Operating Expenses	Capital Expenditure	Regional Shopping	RBO	RBM
2016	255.596.425.969	145.753.666.923	401.350.092.892	63,68%	36,32%
2017	269.846.203.394	183.453.245.013	453.299.448.407	59,53%	40,47%
2018	397.411.853.176	146.547.085.954	543.977.113.130	73,06%	26,94%
2019	346.718.264.511	157.308.748.819	504.196.612.316	68,77%	31,20%
2020	337.825.360.258	157.354.216.167	518.610.334.688	65,14%	30,34%
2021	346.291.293.932	219.978.009.352	566.269.303.284	61,15%	38,84%
2022	336.205.478.709	109.602.776.187	445.808.254.896	75,41%	24,58%
Average	**327.127.839.993**	**159.999.678.345**	**490.501.594.230**	**66,69%**	**32,61%**

Source: Data processed (2024)

The financial activity ratio of South Buton Regency shows fluctuations from 2016 to 2022. The average operating cost ratio measured by the activity ratio metric is 66.69%, while the average capital expenditure ratio is 32.61%. This diagram shows that the operating cost ratio is greater than the capital expenditure ratio. This condition shows that the South Buton Regency Government is increasingly prioritizing the allocation of funds for operational expenditures. The large operating costs have reduced the proportion of money allocated for capital investment, which is intended for the development of facilities, infrastructure, and public services for the community's economy.

Mr. La Ode Safrin, S.E., who is the Head of Accounting and Cash Reporting Section of BKAD South Buton Regency, the Regional Government of South Buton Regency prioritizes operational spending over capital spending. This is because capital spending is a mandatory allocation, with a predetermined spending limit that cannot exceed the amount of operational spending. This study is in line with Hanik (2014) research on the Regional Government of Semarang Regency. Hanik research revealed that when viewed from the activity ratio, the Regional Government of Semarang Regency prioritizes operational spending over capital spending in regional financial performance. In South Buton Regency, a similar incident also occurred where regional financial performance prioritized operational spending over capital spending.

Growth Ratio

To find out whether the South Buton Regency Regional Government experienced positive or negative growth in regional income and expenditure in a particular budget year or several budget periods, a method called the growth ratio is used. (Mahmudi in Fathah, 2017). The table below shows the Regional Financial Growth Ratio of South Buton Regency from 2016 to 2022.

Table 4 Growth Ratio South Buton Regency

Year	PAD	Regional income	Operational expenses	Capital expenditure
2016				
2017	108,01%	1,36%	56,92%	25,86%
2018	204,47%	9,88%	47,27%	20,12%
2019	- 42,06%	7,15%	12,76%	20,12%
2020	32,65%	0,001%	2,565	0,03%
2021	8,52%	-3,87%	2,51%	39,80%
2022	40,72%	2,35%	-2,91%	-50,18%
Average	**58,72%**	**2,81%**	**19,85%**	**9,29%**

Source: Data processed (2024)

The growth rate of Local Original Income (PAD) of South Buton Regency fluctuates every year. In 2016, there was a significant increase in the PAD growth ratio to a peak of 311.06%. Conversely, in 2019 there was a significant decline with the growth ratio dropping to -42.06%. Regional income experienced the largest percentage growth in 2018, reaching 9.88%, but the lowest percentage growth occurred in 2021 with a decline of -3.87%. In addition to the growth rate of PAD and regional income, table 4.5 also shows the growth rate of operational expenditures and capital expenditures. The table shows the lowest operational expenditure growth ratio in 2022 at -2.91% and the largest in 2016 at 91.63%. In 2021, the capital expenditure growth ratio reached a maximum of 39.80%, while in 2022 it fell to its lowest point of -50.18%.

Mr. La Ode Safrin, S.E, Head of Accounting and Cash Reporting Section of BKAD South Buton Regency, the rise and fall of the financial growth ratio of South Buton Regency from year to year has certain reasons. (1) Regional income can fluctuate every year, especially transfer income. This is mainly due to the adjustment of profit sharing funds, which are influenced by low central government payments in previous years, as well as village funds and incentive funds. (2) Changes in the PAD side are mostly driven by the increase in retribution income generated from the functioning of the South Buton Regional Hospital. (3) Changes in income will certainly have an impact on regional spending, especially operational and capital expenditures. This study is in line with research conducted by Susanto (2019) on the Mataram City Regional Government which shows that the financial performance of the Mataram City region can be classified as poor based on its growth ratio.

Hypothesis testing

Statistical analysis t Basically describes the extent to which the variance in the dependent variable can be explained by the influence of the independent variable alone (Ghozali, 2018). By comparing the calculated t with the t table, you can find the t test. With a confidence level of 95% (α = 0.05). (a) Ha is accepted and H0 is rejected if the probability is less than 0.05. (b) H0 is accepted and Ha is rejected if the probability is greater than 0.05. The results of the T test can be seen in Figure 1 below.

Table 5. Hypothesis Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-4.464	5.462		-.817	.474		
	Dana Perimbangan	.009	.021	.155	.454	.681	.836	1.196
	Belanja Daerah	.180	.079	.908	2.276	.107	.608	1.643
	Pajak Daerah	-.072	.034	-.807	-2.129	.123	.673	1.486

a. Dependent Variable: Kinerja Keuangan

The results of the study indicate that the t-value of the Balancing Fund is 0.454, which is smaller than the t-table value of 2.353 at a significance level of 0.681, which is higher than the alpha (α) value of 0.05. Thus, it can be concluded that the Balancing Fund has no effect on the Financial Performance of the South Buton Regency Regional Government. As a result, the initial hypothesis (H1) is invalid,

while the null hypothesis (Ho) is confirmed. The results of the hypothesis test study indicate that Regional Expenditure has a t-value of -2.276 which is statistically significant with a p-value of 0.107. This p-value is smaller than the predetermined significance level (alpha) of 0.05. Based on these findings, the partial impact of regional spending on regional financial performance is not statistically significant. Therefore, the second hypothesis (H2) is refuted and the null hypothesis (H0) is confirmed. Regional taxes have a statistical significance value of 0.123, greater than the threshold of 0.05. In addition, the estimated coefficient t (-2.129) is smaller than the critical t value of the t table (-2.353). To mitigate the negative impact on financial performance caused by regional taxes.

The allocation of expenditure is greatly influenced by the Balancing Fund which is the main source of regional income. The positive regression coefficient of the Balancing Fund shows that with the Balancing Fund, the amount of funds available for the activities and operations of the South Buton Regency Government is limited. This result is in accordance with the research of Renas and Muid (2014) which shows that regional spending and the financial performance of the South Buton Regency Government are not too affected. This is because the region is very dependent on certain sources of income, such as transfers from the central government or income from certain sectors (such as taxes or certain natural resources). This dependence can reduce the capacity of regional financial management.

This study shows that there are still few local taxes that are a source of Local Revenue for South Buton Regency. This is due to the lack of public understanding of the importance of paying taxes, as well as the less than optimal sanctions given by the South Buton Regency Government to taxpayers who do not or are late in paying taxes. The Regional Revenue Agency in charge of local taxes must be able to build an affordable, effective, and efficient tax collection system.

CONCLUSION

Based on the research findings, South Buton Regency was able to maintain a regional financial independence ratio of 3.35% over the past seven years. The regional financial effectiveness ratio showed some fluctuations, but overall the regional government showed a high level of effectiveness during this period. The average operating cost ratio was 66.69% and the average capital expenditure was 32.61%. Fluctuations occurred in all regional financial growth ratios. The results of the hypothesis test showed that the Balancing Fund did not have a statistically significant effect on the financial performance of the regional government. This indicates that the regional government is unable to manage funds received from the federal government effectively. Regional spending partially did not have a significant impact on regional fiscal performance. This is in line with the finding that inefficient capital expenditure management can have a negative impact on regional income and the financial performance of the regional government. The results of the hypothesis test showed that to a certain extent regional taxes did not have a negative impact on regional financial performance. This indicates that further efforts are needed to increase regional tax revenues in order to obtain optimal regional income.

ACKNOWLEDGMENTS

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