

ANALYSIS OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE

THE BUDGET YEAR 2016 – 2020

(Case Study in South Sumatera Provincial Government)



Script By:

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ACCOUNTING

Proposed as One of the Requirements to Get A Bachelor of Economic Degree

**MINISTRY OF EDUCATION, CULTURE, RESEARCH, AND
TECHNOLOGY**

SRIWIJAYA UNIVERSITY

FACULTY OF ECONOMICS

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ANALYSIS OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE THE BUDGET YEAR 2016 – 2020 (Case Study in South Sumatera Provincial Government)

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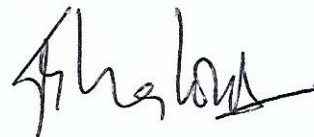
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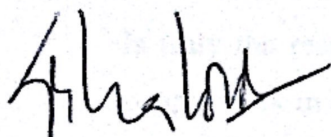
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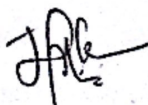
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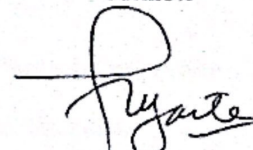
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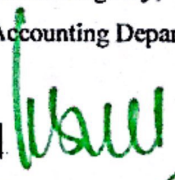
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MOTTO AND DEDICATION

“Indeed, Allah will not change the condition of a people until they change what is
is in themselves”

(Q.S Ar-Ra’d: 11)

“If you are not willing to learn, no one can help you. If you are determined to
learn, no one can stop you.”

(Zig Ziglar)

I dedicate to:

- Allah SWT
- My beloved parents
- My brothers
- All my big family
- All my dearest friends
- Almamater

PREFACE

Praise to Allah SWT for His mercy and grace, so that the author can complete this research entitled, "Analysis of Local Government Financial Performance The Budget Year 2016 – 2020 (Case Study in South Sumatra Provincial Government)". This script is one of the requirements for obtaining a Bachelor of Economics degree Program Undergraduate (S-1) Faculty of Economics, Sriwijaya University.

This script discusses financial performance using the independence ratio, efficiency ratio, effectiveness ratio, and degree of fiscal decentralization. The data used in this research is secondary data collected by the website of Directorate General of Fiscal Balance, Ministry of Finance (www.djpk.kemenkeu.go.id).

Palembang, July 2021

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THANK-YOU NOTE

My sincere appreciation to many parties who have helped me to finish the script. Therefore author would like to express gratitude to :

1. **Mr. Prof. Dr. Ir. H. Anis Saggaff, MSCE** as Rector of Sriwijaya University.
2. **Mr. Dr. Mohammad Adam, S.E., M.E** as Dean of the Faculty of Economics, Sriwijaya University.
3. **Mr. Arista Hakiki, S.E., M.Acc., Ak., CA** as the Head of the Accounting Department, Faculty of Economics, Sriwijaya University.
4. **Mrs. Hj. Rina Tjandrakirana DP, S.E., M.M Ak** as the Academic Manager of the Accounting Department, Palembang Campus.
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Who are always encourage, love, and continuous sincere prayers to the authors, love you both.

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15. All parties who have help and provided support both directly and indirectly in the process of preparing this script.

May Allah SWT repay all the kindness you have given to the author in the process of completing this script.

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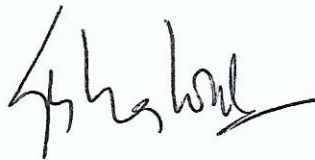
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ABSTRACT

ANALYSIS OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE THE BUDGET YEAR 2016 – 2020 (Case Study in South Sumatera Provincial Government)

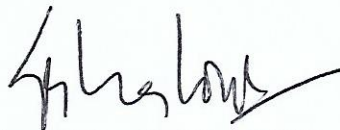
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This research aims to analyze financial performance of regency and city governments in South Sumatera Province for budget year 2016-2020. The financial performance analysis is performed using ratio analysis such as independence ratio, effectiveness ratio, efficiency ratio and degree of fiscal decentralization. This research method is quantitative descriptive. The data used is secondary data in the form of Budget Realization Report 17 regency and city regional governments in South Sumatera Province, obtained from the official website of the General Director of Fiscal Balance (DJPK).

The results showed that the regional financial performance of the South Sumatera Province Government measured by the independence ratio classified as very low financial capabilities with instructive relationships pattern, then measured by efficiency ratio classified as efficient, the effectiveness ratio classified as effective, the degree of fiscal decentralization classified as very lacking.

**Keywords: Financial Performance, Independence Ratio, Effectiveness Ratio,
Degree of Fiscal Decentralization**

Head,



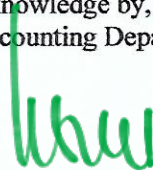
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ABSTRAK

ANALISIS KINERJA KEUANGAN PEMERINTAH DAERAH TAHUN ANGGARAN 2016 – 2020 (Studi Kasus di Pemerintah Provinsi Sumatera Selatan)

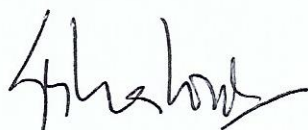
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Penelitian ini bertujuan untuk menganalisis kinerja keuangan pemerintah kabupaten dan kota di Provinsi Sumatera Selatan Tahun Anggaran 2016-2020. Analisis kinerja keuangan dilakukan menggunakan analisis rasio seperti rasio kemandirian, rasio efektivitas, rasio efisiensi dan derajat desentralisasi fiskal. Metode penelitian ini adalah deskriptif kuantitatif. Data yang digunakan adalah data sekunder berupa Laporan Realisasi Anggaran 17 pemerintah daerah kabupaten dan kota di Provinsi Sumatera Selatan, yang diperoleh dari situs resmi Direktorat Jenderal Perimbangan Keuangan (DJPK).

Hasil penelitian menunjukkan bahwa kinerja keuangan daerah Pemerintah Provinsi Sumatera Selatan diukur dengan rasio kemandirian tergolong kemampuan keuangan sangat rendah dengan pola hubungan instruktif, kemudian diukur dengan rasio efisiensi tergolong efisien, rasio efektivitas tergolong efektif, derajat fiskal desentralisasi tergolong sangat kurang.

Kata Kunci: Kinerja Keuangan, Rasio Kemandirian, Rasio Efisiensi, Rasio Efektivitas, Derajat Desentralisasi Keuangan

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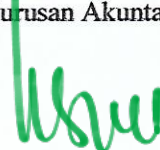
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CHAPTER I

INTRODUCTION

1.1 Background

The implementation of decentralization in various countries is developing rapidly. The USAID report (2000) states that empirically the process of decentralization and the development of democratic local government continues to grow and develop, beginning in eastern Europe, specifically Bolivia and Bulgaria, and extending to West Africa and South Asia (Wicaksono, 2012). Several developing countries have begun decentralizing government functions to local governments since the 1980s. Countries in the region continue to gradually and systematically devolve more authority to local governments and to work more actively to improve local government's effectiveness and responsiveness in providing services in their regions (Harsasto, 2020).

Decentralization policies are implemented throughout the world for various reasons. There are at least three reasons that encourage several countries to implement decentralization. First, decentralization was carried out because several countries expected a smaller unit of government. This impetus arose because the previous ruling government implemented a centralized pattern of intergovernmental relations at different levels. The second reason is to reduce the range of authority of the central government, which is too large. The wide range of authority causes government fulfilling work to accumulate in central government.

The third reason is to encourage community participation in decision-making at the local level and increase accountability.

Efforts to implement decentralization in Indonesia have been going on since the independence revolution (1945-1949) through Republic of Indonesia Law No. 1 of 1945 concerning the Position of Regional National Committees. This policy was later updated through Republic of Indonesia Law No. 22 of (1948) concerning Regional Government. Entering the reformation era, decentralization became the main agenda that was carried out to respond to the expectations of the citizens who desired the results of development to be felt fairly for all Indonesian citizens.

According to Republic of Indonesia Law Number 23 of (2014), Article 1 that Decentralization is the submission of government affairs by the Central Government to autonomous regions based on the principle of autonomy. With decentralization, there is autonomy for a regional government. The era of regional autonomy in Indonesia has undergone a renewal since the implementation of Republic of Indonesia Law Number 23 of (2014), which replaced Republic of Indonesia Law Number 32 of (2004) concerning Local government, and Republic of Indonesia Law Number 33 of (2004), which replaced Republic of Indonesia Law Number 25 of 1999 concerning Financial Balance between Central and Local government.

This Law Reform affirms the handover of government affairs by the central government to autonomous regions based on the principle of autonomy by emphasizing the effectiveness and efficiency of local government administration through decentralization policies that were clarifying the concept of

decentralization within the framework of the Republic of Indonesia, clarifying regulations in various aspects of local government administration to prevent conflicts between levels of government and also adding new arrangements that have not been regulated in Republic of Indonesia Law Number 32 of 2004 to accelerate the goals of decentralization.

The initial implementation of decentralization in Indonesia was aimed at creating aspects of independence in regional. As a consequence in the implementation of decentralization, the regions then receive the delegation of authority in all fields, except for the authority in foreign policy, defense, security, judicial, monetary and fiscal, and religious matters. The delegation of authority was also followed by submitting funding sources in the form of submission of tax bases, and funding assistance through the transfer to regions mechanism by the money follows function principle. A transfer to regions mechanism is based on considerations of reducing inequality that may occur both between regions (horizontal imbalances) and between the central and regional governments (vertical imbalances). The handover of fiscal decentralization can be said it was going well if it is followed by good financial management capabilities by local governments.

According to Republic of Indonesia Law Number 33 of 2004, Article 66 Paragraph (1), financial management in the context of decentralization of regional finance is managed in an orderly manner, obeying the laws and regulations, efficient, economical, effective, transparent, and responsible with due regard to justice, propriety, and benefits for the community. To assess a local government's capability, independence, effectiveness, and efficiency in financial management,

financial ratio analysis of the regional budget can be used to assess regional financial independence in financing the implementation of regional autonomy, the effectiveness of regional revenue realization, and the level of spending efficiency. The regional financial ratios that result are expected to reflect the ability of local governments to manage their finances.

Numerous research highlights the several financial ratios for measure financial performance in local government. Harahap (2018) analyzed the financial performance with an effectiveness ratio of PAD, regional financial efficiency ratio, ratio of harmony, growth ratio, and ratio of regional financial independence. The results of the analysis show that the fiscal decentralization degrees ratio is very low. Ratio of regional financial independence is still classified as an instructive pattern. The effectiveness ratio of PAD as effective. The regional financial efficiency ratio is still considered inefficient. Ratio of suitability that most of the funds owned by local government is still prioritized for the needs of operating expenditure this causes the ratio of capital expenditure to be relatively small.

Zulkarnain (2020) analyzed the financial performance by using a regional financial ratio measurement tool, which consists of the fiscal decentralization ratio, the regional government financial dependency ratio, the PAD effectiveness ratio, and the capital expenditure ratio. The results of the measurement of the fiscal decentralization ratio concluded that the financial capacity of the regency city s still classified as less. The measurement results of the regional government financial dependency ratio concluded that low category. The results of the measurement of the PAD effectiveness ratio concluded had been effective and very effective in

realizing the PAD target. And the results of the capital expenditure ratio measurement concluded that there had been efforts to maximize capital expenditures.

Maulina & Rhea (2019) analyze the financial performance with a ratio of local financial independence, degree of fiscal decentralization ratio, effectiveness ratio, efficiency ratio, ratio of harmony, and growth ratio. The results of calculations and analysis of local financial performance can be concluded the pattern of the relationship between the level of regional independence is on participatory criteria. The degree of fiscal decentralization is in the category of enough. The level of effectiveness is included in the effective category while the efficiency level is included in the less efficient category. Ratio of harmony shows the balance of expenditure are not balanced and the growth ratio which is still fluctuating.

Pilat & Morasa (2017) analyze the regional financial performance by calculate the ratio of independence, degree of fiscal decentralization, ratio of effectiveness, ratio of efficiency and ratio of expenditure congruence. The result on the calculation and analysis of the regional financial performance can be concluded that the pattern of the region's autonomy level relationships is instructive criteria. Degree of fiscal decentralization is still lacking, but the ratio of effectiveness is very effective and the ratio of efficiency is also very efficient. Ratio of expenditure congruence shows the balance between expenditures are not balanced.

Swabra (2018) analyze on Local-Own Source Revenue uses ratio of Degree of Fiscal Decentralization, ratio of Local-Own Source Revenues effectiveness and efficiency, ratio of activity/suitability, and ratio of growth. The research result

concludes has limited ratio of Degree of Fiscal Decentralization. Ratio of Local-Own Source Revenues effectiveness is classified as effective, and ratio of Local-Own Source Revenues efficiency is classified as efficient. Ratio of activity/suitability experiences to be imbalance, operational expenditure is more dominant compared to capital expenditure. Growth ratio indicates each constituent Local Government Budgets components experience to fluctuate. Local-Own Source Revenue, total local revenue, and operational expenditure experience positive growth, while the capital expenditure experiences negative growth.

Indramawan (2018) analyze the human development index with a ratio of fiscal decentralization, regional dependency ratio, effectiveness ratio of locally generated revenue, and capital expenditure ratio. The results of the measurement of the fiscal decentralization has a significant positive impact on HDI, regional dependency ratio and capital expenditure ratio have a significant negative effect on HDI, effectiveness ratio of locally-generated revenue has a negative impact on HDI, but it is not significant.

Setianingrum & Haryanto (2020) analyze the regional financial performance is financial ratio analysis by calculate the decentralized ratio, independence ratio, effectiveness ratio, growth ratio, and current ratio. The result on the calculation and analysis of the regional financial performance can be concluded that the decentralization ratio classified as less, independence ratio classified as very low, effectiveness ratio classified as effective enough, the growth ratio classified as positive, current ratio classified as very current.

M. Zulkarnain et al (2020) analyze the regional financial performance using the independence ratio and effectiveness ratio. The result on the calculation the ratio of independence is classified as very low. The effectiveness ratio is classified as effective. Hadisantoso et al (2020) analyze the financial performance using the efficiency ratio, the independence ratio, and the effectiveness ratio. The result is independence ratios classified as very low, effectiveness ratios classified as very effective, efficiency ratios classified as efficient. Alvina et al (2018) analyze the financial performance using the effectiveness ratio, efficiency ratio, and harmony ratio. The result is effectiveness ratio has been effective, efficiency level of municipal is less efficient, the harmony ratios show the amount of operating expenditure is greater than the capital expenditure.

Zuhri & Soleh (2016) analyze the financial performance independence ratio, effectiveness ratio, activity ratio, and growth ratio. The result is regional financial independence ratio is relatively very low, effectiveness ratio is ineffective, activity ratio of the ratio of operating expenditure quite well, capital expenditure ratio classified as not good, growth ratio was relatively moderate growth. Sartika (2019) analyze the regional financial performance by calculate efficiency ratio, independence ratio, effectiveness ratio, degree of fiscal decentralization, and equivalent ratio. The result is efficiency ratio shows efficient, independence ratio shows very low, effectiveness ratio shows effective degree of fiscal decentralization shows a very lack, equivalent ratio, especially the ratio of operating expenditure, shows more than the average capital expenditure ratio.

This research replicates previous research using provincial data to evaluate the province's financial performance, especially the Province of South Sumatera. The Provincial Government of South Sumatra is a province on the island of Sumatra, consisting of four cities and thirteen regencies. The Governor of South Sumatra is the head of government in carrying out performance in the field of regional financial and asset management (BPKAD) South Sumatra Province. According to the Financial Indonesian Supreme Audit Institution, South Sumatra Provinces Districts / Cities representatives get the WDP opinion (qualified opinion) or not entirely optimal.

Based on Budget Realization Report South Sumatera province government (2016-2020) is known that the province of South Sumatera is experiencing a surplus even increasing every year. But this did not last long because, in 2018, it experienced a decrease in revenue and spending differences. Then in 2019, there is a deficit. Where the regional income in 2019 is smaller than regional spending.

Year	Revenue (Rp)	Expenditure (Rp)	Surplus/Deficit (Rp)
2016	6.582.776.257.435,00	4.962.575.252.000,00	1.620.201.005.435,00
2017	8.195.968.131.801,00	6.409.382.404.459,00	1.786.585.727.342,00
2018	9.141.371.395.100,00	7.941.143.670.102,00	1.200.227.724.998,00
2019	9.280.742.072.448,00	9.618.074.513.840,00	-337.332.441.392,00
2020	9.237.277.086.133,00	7.665.470.813.475,00	1.571.806.272.658,00

Source: Directorate General of Fiscal Balance, Ministry of Finance

It is interesting to know more about how financial ratios explain the South Sumatra provincial government's financial condition, the contributing factors to the

2019 budget deficit, and its impact on the performance of the South Sumatra provincial government.

The difference between the research that the researchers will do with the previous research is located on the object of the research that is the local government of South Sumatera Province. The reason researchers chose the area is that there is still very little previous research in this area. Furthermore, the difference also lies in the more recent observation period, which is the budget year 2016 – 2020, which is the last five years of the budget at the time of this study.

Based on all of the above background descriptions, the study was **titled Analysis of Local Government Financial Performance the Budget Year 2016 - 2020 (Case Study on South Sumatera Provincial Government).**

1.2 Statement of Problem

Based on the background that has been outlined, then the problems that can be formulated in this study are:

1. How is the financial performance of the province of South Sumatera measured from the ratio of regional financial independence?
2. How is the financial performance of the province of South Sumatera measured from the ratio of regional financial efficiency?
3. How is the financial performance of the province of South Sumatera measured from the ratio of regional financial effectiveness?
4. How is the financial performance of the province of South Sumatera measured from the ratio of the Degree of Fiscal Decentralization?

1.3 Objective of Research

Based on the formulation of the above problems, the research objectives that the authors want to achieve are:

1. Evaluate, analyze, and interpret financial performance in South Sumatera based on the ratio of regional financial independence budget year 2016-2020.
2. Evaluate, analyze, and interpret financial performance in South Sumatera based on the ratio of regional financial efficiency budget year 2016-2020.
3. Evaluate, analyze, and interpret financial performance in South Sumatera based on the ratio of the effectiveness of local government revenue budget year 2016-2020.
4. Evaluate, analyze, and interpret financial performance in South Sumatera based on the ratio of the Degree of Fiscal Decentralization budget year 2016-2020.

1.4 Benefits of Research

This research is expected to provide benefits to:

1. Centrally, the study expecting to provide an overview of the provincial government's financial performance that affects the provincial government's performance. Thus, this research can be used as an evaluation to take policies related to fiscal decentralization
2. The provincial government, this research can give an overview of its financial performance so that it can be used as input to improve its performance if it feels less satisfactory.

3. Academicians and subsequent research can be literature can be used as one of the following research development materials on the financial performance of local governments in Indonesia.

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