



Local Government Financial Performance Analysis Using Economic, Efficiency and Effectiveness Ratio and it's Affect Development of Jambi City

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ARTICLE INFO

Keywords: Financial Performance, Economic, Efficiency, Effectiveness, Capital Growth, Development

Received : 03, October

Revised : 08, November

*Accepted:*15, December

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ABSTRACT

This research examines to assesses the financial performance of the Jambi City Government by using the calculation method of Economic Ratios, Efficiency Ratios and Effectiveness Ratios and to see the effect of this financial performance on development in Jambi City. The analytical method in this research uses descriptive analysis and Correlation Test. The data used in this study are Regional Expenditures, Personnel Expenditures, Capital Expenditures, Regional Revenues and Local Own Revenue for the City of Jambi for the last 4 years, namely 2018, 2019, 2020, and 2021. The three ratios from the value for money method are then linked with the Capital Expenditure growth ratio.

INTRODUCTION

In order to ensure the proper implementation of regional autonomy, it cannot be separated from the ability of the Regional Government in the field of financial management. Regional governments are required to be more independent with regard to regional development financing and the ability of local governments to maximize the management of regional wealth resources they own. Law Number 23 of 2014 states that the sources of regional finance (income) are (1) Local Own Revenue which includes regional taxes, regional fees, results of separated regional wealth management and other legitimate regional original income, (2) Transfer income and (3) Other legitimate regional income.

To assess the accountability of organizations and managers to produce better public services, performance measurement is very important. This performance measurement will become a reference related to performance assessment, especially in assessing the success or failure of government (organization) programs/activities. Measuring public sector performance is carried out so that 3 (three) things are met. The first, aims to improve the performance of the public sector (government). Furthermore, it is useful for allocating work decisions and resources. Finally, performance measurement aims to improve institutions and to realize public accountability (Ropa, 2016).

The concept of measuring performance using the value for money method means that the performance indicators of a public sector can produce data (information) regarding the use of the budget which has value for society. The ratio (indicator) of value for money is an economic, efficient and effective ratio. (Nordiawan, 2019). Performance measurement using this concept is able to produce balance regarding output measurement compared to process measurement.

The Jambi City Government have the authority and responsibility in implementing the government as a whole and is obliged to submit regional financial accountability reports so that the public can assess whether the Jambi City government has succeeded in carrying out its duties well or not. The increase in income and expenditure provides an indication that the Jambi City Government has realized their vision, mission and goals (Friyani, 2020).

Jambi City Government performance measurement is calculated using Economic Ratios, Efficiency Ratios and Effectiveness Ratios. (value for money method). The Economic Ratio value is obtained by comparing employee expenditure with regional expenditure. The Efficiency Ratio is obtained from a comparison of Regional Expenditures and Regional Income. Meanwhile, the Effectiveness Ratio value is obtained from the comparison of Regional Income with PAD (Original Regional Income). In general, the finances of the Jambi City Regional Government can be seen from the realization of regional income and expenditure for 2018-2021 (for 2022 the data has not been officially published) which is presented in Table 1.1.

Table 1.1

Realization of Regional Income and Expenditure of Jambi 2018-2021

Year	Income	Expenditure
2018	1.571.332.218.626,47	1.525.413.835.576,45
2019	1.500.633.237.946,70	1.495.010.546.734,80
2020	1.621.827.275.396,39	1.665.932.584.837,45
2021	1.652.948.449.754,68	1.740.357.878.019,78

From the table above, it can be seen that the problems faced by the Jambi City Government, namely in 2020 and 2021, the realization of expenditure exceeds the realization of income. Where in 2020 the realized income was IDR. 1,621,827,275,396.39 while the actual expenditure was Rp. 1,665,932,584,837.45, meaning there is a difference of Rp. 44,105,309,441.06. Then for 2021, realized income of IDR. 1,652,948,449,754.68 while actual expenditure amounted to Rp. 1,740,357,878,019.78 so there is a difference of IDR 87,409,428,265.1.

The amount of Capital Expenditure allocation for a region will determine the development conditions of that region in accordance with the budget in the APBD. This condition is caused because Capital Expenditure is a type of expenditure specifically for infrastructure development in the region. Jambi City Government Capital Expenditures have fluctuated over the last 4 years, there have been additions and also reductions, for more details can be seen in Table 1.2 :

Table 1.2

Capital Expenditure Growth Jambi City in 2018-2021

Year	Capital Expenditure	Capital Expenditure Growth	Information
2018	432.100.003.926	-	-
2019	445.809.162.049	3 %	Bertambah
2020	444.351.878.183,92	(0,32 %)	Berkurang
2021	495.805.792.008,94	11,57 %	Bertambah

Based on the fluctuating values of Jambi City Regional Government Income and Expenditures for the last 4 years and the growth of Capital Expenditures for the last 4 years which is also fluctuating, three ratio calculations are used, namely Economic, Efficiency and Effectiveness to analyze the actual condition of the Jambi City Government's financial performance. Then the values of the three ratios are compared with the Capital Expenditure Growth Ratio to analyze the influence of Jambi City's financial performance on development in Jambi City.

THEORETICAL REVIEW

Financial Performance

Performance according to Bastian (2010) is an overview of the achievement and implementation of activities or programs or policies for the realization of the goals, objectives, vision and mission of the government (organization). Performance is a success obtained by an organization within a certain period of

time. According to PP No. 8 of 2006, government performance is defined as the output or outcome of government activities and programs that will or have been achieved in relation to the use of the budget based on measurable quantity and quality.

Local Own Revenue

Local Own Revenue (PAD) according to Law No. 23 of 2014 concerning Regional Government is revenue earned by a region which is collected according to regional regulations which are adjusted based on statutory regulations. PAD is the receipt of Regional Taxes, Retribution, Results of Separated Regional Wealth Management and Other Legal Income.

Regional Expenditure

Regional expenditure according to government accounting standards is all types of expenditure from the Regional General Treasury account which will be a reduction in current fund equity in the relevant fiscal year period for which the regional government will not receive repayment. Shopping can be interpreted as the regional government's obligation to reduce net assets which are the result of past events. To evaluate and analyze whether the regional government has used its APBD efficiently, effectively and economically (Value for Money), a regional expenditure analysis is carried out.

Capital Expenditure

Regulation of the Minister of Home Affairs Number 21 of 2011 states that Capital Expenditure is used for expenditures carried out in relation to the purchase or procurement or construction of tangible fixed assets that have a useful life of more than one year used in relation to government activities, for example in the form of land, equipment and machinery, buildings as well as other fixed assets.

Value for Money

The Value for Money method is defined by Mardiasmo (2012) as a method or concept for managing public sector organizations which consists of three main indicators, namely economics, efficiency and effectiveness. Economics can be done by comparing input with input value and expressed in monetary units. Efficiency can be interpreted as achieving maximum output based on certain inputs where the inputs are used minimally but are able to achieve certain outputs. Efficiency is obtained by comparing output/input related to work standardization or agreed targets. Efficiency can also be interpreted as achieving activity results against predetermined targets.

METHODOLOGY

The Type and Source of Data

The type of data used in this research is secondary data. This study uses secondary data, namely data to calculate the financial performance of the Jambi City Government based on the concept of value for money and its impact on development in Jambi City. Regional financial document data in this research

was obtained from the Regional Financial and Asset Management Agency (BPKAD) of Jambi City for 2018-2021 and BPK RI Jambi Province.

Method of Collecting Data

Data collection in this research was carried out using archival data collection methods. The archival data collection method is a technique for collecting data in a database. The data in this research were obtained from: Jambi City Regional Financial and Asset Management Agency (BPKAD) and BPK RI Jambi Province and data or information obtained from reference books and journals related to this research.

Method of Analysis Data

The method used to analyze this research is descriptive analysis method and correlation test. Descriptive analysis is a part of statistics that is used to describe or describe data that has been collected as it is without intending to make conclusions but only to explain that group of data. Correlation test is an analytical technique used to determine whether there is a relationship between 2 or more variables being tested. The measure of the closeness in the correlation test is usually called the correlation coefficient or rho. The rho value ranges from -1 to 1. If the rho value is close to -1 or 1 then the two or more variables have a strong correlation. Conversely, if the rho value is close to 0 then two or more variables tend to have a weak correlation or even no correlation.

RESULTS

Test of Normality and Correlation

Table 1. Tests of Normality

	Statistic	Shapiro-Wilk df	Sig.
Economic	.999	3	.933
Efficiency	.969	3	.661
Effectiveness	.967	3	.649
Capital Expenditure	.916	3	.439

Correlations

Ekonomi	Pearson Correlation	-.946
	Sig. (2-tailed)	.209
	N	3
Efisiensi	Pearson Correlation	.597
	Sig. (2-tailed)	.593
	N	3
Efektivitas	Pearson Correlation	-.592
	Sig. (2-tailed)	.597
	N	3

Table 2. Summary Coorelation Test

Variabel	Coefficient correlation	R Square	% effect
X1 --> Y	-0.946	0.895	89.5%
X2 --> Y	0.597	0.356	35.6%
X3 --> Y	-0.592	0.350	35.0%

Economic Ratio's

This ratio can be calculated by comparing the actual regional expenditure (input) with the regional expenditure budget (input value). The table below displays the results of calculating the Economic Ratio for the Jambi City Government :

Table 3. The Economic Ratio Jambi City Government

Year	Regional expenditure budget	Regional expenditure realization	Percentage (%)
2019	1.847.519.084.475,00	1.660.527.631.709,83	89,88
2020	1.826.930.849.781,00	1.665.932.584.837,45	91,19
2021	1.961.694.919.058,00	1.740.357.878.019,78	88,72

Efficiency Ratio's

This ratio can be calculated by making a comparison between the realization of regional spending (outcomes) and the realization of regional income (output). The results of calculating the Jambi City Government Efficiency Ratio can be seen in the table below :

Table 4. The Efficiency Ratio Jambi City Government

Year	Regional Expenditure	Regional Expenditure	Percentage (%)
2019	1.660.527.631.709,83	1.699.542.709.763,06	97,70
2020	1.665.932.584.837,45	1.621.827.275.396,39	102,71
2021	1.740.357.878.019,78	1.652.948.449.754,68	105,29

Effectiveness Ratio's

This ratio can be calculated by comparing realized regional income with the regional income budget. The table below displays the results of the calculation of the Jambi City Government Effectiveness Ratio:

Table 5. The Effectiveness Ratio Jambi City Government

Year	Regional Income Budget	Regional income realization	Percentage (%)
2019	1.699.542.709.763,06	1.675.902.071.976,00	101,41
2020	1.621.827.275.396,39	1.617.658.414.714,00	100,26
2021	1.652.948.449.754,68	1.658.405.928.034,00	99,67

DISCUSSION

Economic Ratio of Jambi City Government

It can be seen from the table 3 above that the economic ratio of the Jambi City Regional Government experienced fluctuations in 2019 with a percentage of 89.88%, then increased in 2020 by 91.19%, and decreased in 2021 by 88.72%, but during For the last 3 years, the results of calculating economic ratios are still within economic criteria.

The economic ratio is a ratio that compares the realization of regional expenditure with the regional expenditure budget. According to the economic ratio criteria, the smaller the economic ratio value, the better the regional government's financial performance. From the research results, it was found that the economic ratio value of the Jambi City Government has fluctuated over the last 3 (three) years. However, in general, the economic ratio of the Jambi City Government is below 100%, which means it is economical.

This can be interpreted as saying that the Jambi City Government has implemented cost efficiency, where the realization of regional expenditure is smaller than the regional budget. So it can be concluded that in terms of economic ratios, the financial performance of the Jambi City Regional Government is good.

Efficiency Ratio of Jambi City Government

As seen in table 4 above, the Jambi City Regional Government Efficiency Ratio was 97.70% in 2019, then increased to 102.71% in 2020 and again increased to 105.29% in 2021. Over the past 3 (three) years it has been seen that the efficiency ratio has increased.

The efficiency ratio is a ratio that compares the realization of regional expenditure with the realization of regional income. According to the efficiency ratio criteria, the smaller the efficiency ratio value, the better the regional government's financial performance. From the results of the study it was found that the value of the efficiency ratio of the Jambi City Government has increased continuously over the last 3 (three) years.

In 2019, the Jambi City Government's efficiency ratio value was in the less efficient range. Then 2020 and 2021 will be in an inefficient position. This happened because in 2020 and 2021, the whole world experienced the Covid 19 pandemic outbreak, including the city of Jambi. This pandemic condition has caused the Jambi City Government to spend more money than it should. This spending is mainly related to the health sector. This condition is not only experienced by the Jambi City Government, but experienced by almost all regions in Indonesia. So that when viewed from the Efficiency Ratio, the Jambi City Government's financial performance can be declared inefficient.

Effectiveness Ratio of Jambi City Government

As seen in table 5 above, the Jambi City Regional Government Effectiveness Ratio was 101.41% in 2019, then decreased to 100.26% in 2020 and decreased again to 99.67% in 2021. For 3 The last (three) years show that the efficiency ratio has decreased.

The effectiveness ratio is a ratio that compares the realization of regional income with the regional revenue budget. According to the effectiveness ratio criteria, the greater the effectiveness ratio value, the better the regional government's financial performance. From the research results, it was found that the effectiveness ratio value of the Jambi City Government has decreased over the last 3 (three) years, although the decrease is not too significant.

In 2019 and 2020, the effectiveness ratio value of the Jambi City Government was in the very effective range. Then in 2021 it will be in the Effective position. Even though the value of the Jambi City Government Effectiveness Ratio has decreased, in general the financial performance of the Jambi City Government seen from the Effectiveness Ratio is very good.

The Relationship Between Economic Ratios to Jambi City Development

The results of the correlation test between the economic ratio variable and the Jambi City development variable can be seen in table 2 above. From the table above, the results show that the correlation coefficient value of the economic ratio variable for the development of Jambi City is -0.946 with a negative relationship. This means that if the Economic Ratio decreases, Jambi City Development which is proxied by the capital expenditure growth ratio will increase, and vice versa if the Economic Ratio increases, the capital expenditure growth ratio will decrease.

In addition, from the test results it was obtained that the magnitude of the influence between the economic ratio and the development of Jambi City was 89.5%. According to the economic ratio criteria, the smaller the economic ratio value, the better the regional government's financial performance. From the research results, it was found that the economic ratio value of the Jambi City Government has fluctuated over the last 3 (three) years. However, in general, the economic ratio of the Jambi City Government is below 100%, which means it is economical. This means that if it is connected with the development of Jambi City, the lower the value of the Economic ratio, the higher the growth ratio of Capital Expenditures. So it can be concluded that the Financial Performance of the Jambi City Government seen from the Economic Ratio is already good so that the Development of Jambi City is getting better. Meanwhile, the relationship between the economic ratio and the development of Jambi City is that if the economic ratio decreases, the development of Jambi City will increase.

The Relationship Between Efficiency Ratios to Jambi City Development

From table 2 it can be seen that the correlation coefficient value of the efficiency ratio variable with the development of Jambi City is 0.597 with a positive relationship. This means that if the Efficiency Ratio increases, Jambi City Development, which is proxied by the capital expenditure growth ratio, will increase, and vice versa, if the Efficiency Ratio decreases, the capital expenditure growth ratio will decrease. Apart from that, from the test results it was found that the magnitude of the influence between the efficiency ratio and the development of Jambi City was 35.6%.

According to the efficiency ratio criteria, the greater the efficiency ratio value, the better the regional government's financial performance. From the

research results, it was found that the ratio value in 2019, the efficiency ratio value of the Jambi City Government was in the less efficient range. Then 2020 and 2021 will be in an inefficient position. This happened because in 2020 and 2021, the whole world experienced the Covid 19 pandemic outbreak, including the city of Jambi. So that in the 2019-2021 period, the financial performance of Jambi City is still not efficient. Then the relationship between the efficiency ratio and the development of Jambi City is that the higher the efficiency ratio, the better the development of Jambi City will be.

The Relationship Between Effectiveness Ratios to Jambi City Development

From table 2, it can be seen that the correlation coefficient value of the effectiveness ratio variable on the development of Jambi City is -0.592 with a negative relationship. This means that if the Effectiveness Ratio increases, Jambi City Development which is proxied by the Capital Expenditure Growth Ratio will decrease. Conversely, if the effectiveness ratio decreases, the Capital Expenditure Growth ratio will increase. In addition, from the test results, it was found that the influence between the effectiveness ratio and the development of Jambi City was 35%.

In accordance with the effectiveness ratio criteria, the higher the value of the effectiveness ratio, the more effective the government is in managing its financial performance. In 2019 and 2020, the effectiveness ratio value of the Jambi City Government was in the very effective range. Then in 2021 it will be in the Effective position. Even though the value of the Jambi City Government Effectiveness Ratio has decreased, in general the financial performance of the Jambi City Government seen from the Effectiveness Ratio is very good. The relationship between the effectiveness ratio and Jambi City Development should be that the higher the ratio value, the better Jambi City development, but the results of the correlation test actually state the opposite. This can be interpreted that the effectiveness ratio does not affect the capital expenditure growth ratio of Jambi City.

CONCLUSIONS AND RECOMMENDATIONS

The results of this research provide several conclusions about the financial performance of the Jambi City Government seen from economic ratios, efficiency and effectiveness as well as its influence on the development of Jambi City, namely the financial performance of the Jambi City Government seen from the Economic Ratios is Good because it is Economical. Connected with Jambi City Development, the more economical the Jambi City Development, the better. The financial performance of the Jambi City Government seen from the Efficiency Ratio is not yet good because it is not yet efficient. Connected with Jambi City Development, the more efficient it is, the better Jambi City Development will be. Jambi City Government's financial performance seen from the Effectiveness Ratio is Good because it has been Effective. Connected with Jambi City Development, the more effective it is, the better Jambi City Development will be.

Recommendations for the Jambi City Government to continue to improve its financial performance, especially the efficiency ratio.

FURTHER RESEARCH

For further research, we should add other variables to measure the financial performance of Regional Governments such as the regional independence ratio and add other calculation methods.

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