

## FINANCIAL PERFORMANCE ANALYSIS OF EAST LOMBOK DISTRICT GOVERNMENT IN FISCAL YEAR 2020-2022

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### Abstract

*East Lombok Regency is one of the regencies affected by the establishment of various policies from the central government, one of which is the restriction on the use of transfer funds which were previously the main source of funds for various local governments. This requires the East Lombok Regency Government to make optimal efforts to achieve independence to finance government and development activities. This study aims to analyze the financial performance of the East Lombok Regency Government as seen from the degree of independence, dependence, fiscal decentralization, and effectiveness of Regional Original Income. The data used is the realization of the East Lombok Regency Regional Revenue and Expenditure Budget for the 2020-2022 fiscal year. The study was conducted using a quantitative approach through calculations of several financial ratios, namely independence, dependence, fiscal decentralization, and effectiveness. The results show that the independence of the East Lombok Regency Government is still in the extremely low category which is supported by extremely high dependence on the central government and provincial government, as well as fiscal decentralization which is still in the less-than-ideal criteria. This is also indicated by the Regional Original Income as the main factor in supporting its independence, which has not been optimally realized.*

**Keywords:** Degree of Fiscal Decentralization, Degree of Financial Independence, Degree of Financial Dependence, Effectiveness of Regional Original Income, Regional Financial Performance

### Introduction

Every country has goals that it wants to achieve according to its capabilities, people's outlook on life, and the foundation of life that comes from the noble values of the country. Various efforts have been made by the government in regulating national life and its governance to face challenges, obstacles and constraints in realizing national goals, one of which is strengthening financial relations between the central government and regional governments. In the Plenary Meeting of the Indonesian House of Representatives on August 29, 2023, the Minister of Finance (2023) stated that these efforts were built on the basis of four main pillars, including: (1) regional debt financing policies and transfers to regions to minimize vertical and horizontal inequality; (2) developing a regional tax system that supports efficient allocation of national resources; (3) encouraging an increase in quality regional spending; and (4) harmonization between central and regional fiscal policies. To accelerate the welfare of the people in the regions, good equality is encouraged in terms of natural resources and human resources through regional autonomy (Kholik, 2020). Regional autonomy is the transfer of authority to regional governments by the central government to manage and regulate their own households (Nalle et al., 2021). The implementation of regional autonomy has also undergone changes since the enactment of Law Number 32 of 2004 which was revoked by Law Number 23 of 2014 and was last replaced by Law Number 1 of 2022. This law uses the broadest possible autonomy, meaning regions have the authority to regulate and manage all government affairs outside of those of the central government (Fauzi, 2019).

According to Mohamad Guntoro (2021), regional autonomy is intended to bring the government closer to the community through equitable services and in accordance with the needs of the relevant regions. Regional autonomy is expected to produce regional independence, thereby accelerating efforts to reduce inequality with other regions, and creating successful regional development (Melmambessy, 2022). According to Halim A and T. Damayanti, a region can be said to have implemented autonomy well if the region has the authority to explore financial potential in its region, manage and use its own finances to finance its government activities (Akhmad, 2019). This is also supported by Kamaroallah's statement regarding the ability of regional

governments to implement regional autonomy can be seen from their financial capacity to fund the implementation of government in their regions accompanied by Regional Original Income which is the largest source of funds in mobilizing funds for the implementation of their government, so that the level of dependence on the central government is getting smaller (Purnomo & Danuta, 2022). In addition, the Directorate General of Budget of the Ministry of Finance stated that there are several things that determine the success of the implementation of regional autonomy, namely: (1) the degree of dependency of the regional government on the central government; (2) the ability of the regional government to increase economic growth in its region (growth from within); and (3) the ability of the regional government to reduce poverty and inequality in its region (Akhmad et al., 2020).

According to Mardiasmo, measuring financial performance is very important in assessing the accountability of regional financial management that has been carried out by the regional government (Melmbessy, 2022). Mardiasmo stated that there are three objectives of performance measurement. First, to help the government improve its performance. Second, to make decisions and allocate the resources needed. Third, to improve institutional communication and create accountability to the public. In addition, Darise also stated that financial performance can describe the financial condition of an agency or company which is measured in a certain way and produces conclusions regarding the success of the agency or company in managing its finances (Harahap, 2020).

Currently, local governments cannot rely entirely on transfers provided by the Central Government. This is because since the issuance of the Third Amendment to the Regulation of the Minister of Finance Number 139/PMK.07/2019 concerning the Management of Revenue Sharing Funds, General Allocation Funds, and Special Autonomy Funds, the central government has limited the use of transfer funds in order to encourage local governments to be more independent. One local government also affected by this policy is the East Lombok Regency Government. Various efforts are increasingly being made by the local government to increase the rate of economic growth to optimize the contribution of Regional Original Income to the region's total revenue (Ihsan, 2020). Efforts to explore regional potential through the development of the tourism and agricultural sectors are also one of the dominant steps taken. The strategy implemented by this local government also shows that there is enormous potential for the region in increasing economic growth and is a fantastic opportunity for the local government to intensify and increase Regional Original Income to achieve stable and independent financial performance.

The purpose and benefits of this study are to measure the financial performance of the East Lombok Regency Government during 2020 to 2022, which is reviewed from several ratios, namely the regional financial independence ratio, regional dependency ratio, fiscal decentralization ratio, and Regional Original Income effectiveness ratio.

## Method

This study was conducted with a quantitative approach to the realization of the APBD posture for the last three years in East Lombok Regency. The data is included in the type of secondary data because it was obtained through the official website of the East Lombok Regency Financial and Regional Asset Management Agency. The results and discussion of the study will tend to convey phenomena through numbers in drawing conclusions from the results and discussions. The stages of this financial performance analysis are by calculating financial ratios and analyzing and describing the results of calculations from the regional financial independence ratio, regional dependency ratio, fiscal decentralization ratio, and Regional Original Income effectiveness ratio.

The calculation formula used in the study refers to previous research conducted by Dani Melmbessy (2022) and Niswan Zukhri (2020) which refers to several ratios expressed by Halim in Public Sector Accounting Regional Financial Accounting. There are several ratio analyses that can be used to measure regional financial performance developed from financial data sourced from the APBD, including:

### **Regional Financial Independence Ratio**

According to Halim, the regional financial independence ratio is the ability of the regional government to finance economic activities, development, and services to the community who are willing to increase PAD sources through payment of regional taxes and levies (Mauludin & Dewi, 2020). This ratio provides an overview of the dependence of the regional government on external funding sources. The calculation results for a higher ratio describe a low level of regional dependence on external parties such as the central government, and vice versa. This ratio can also show active community participation in regional development. A higher independence ratio results from high community participation in the payment of regional taxes and levies, the main contributors to PAD. This then illustrates the increasing welfare of the community referring to Nugraha and Amelia who said that the regional financial independence ratio has a positive influence on community welfare (Mauludin & Dewi, 2020).

### **Regional Financial Dependency Ratio**

The level of regional dependency is the level of regional ability to fund development activities by optimizing PAD. Mahmudi said that a high regional financial dependency ratio indicates that the region still has a high dependence on external parties, especially the central government (Marlianita & Saleh, 2020).

### **Fiscal Decentralization Ratio**

The level of fiscal decentralization is a measure in describing the level of responsibility and authority obtained by the regional government from the central government to carry out its development. In addition, this ratio also provides an overview for regional governments in funding regional development activities through optimization of PAD.

#### Regional Original Income Effectiveness Ratio

The effectiveness ratio describes the regional government's ability to realize PAD based on the real potential of the region arranged in the PAD target. A region will be considered effective if it achieves a minimum ratio of 1 (one) or 100 (one hundred) percent. This shows that a higher effectiveness ratio will show a better regional ability.

### Results and Discussion

#### Regional Financial Independence Ratio

The regional financial independence ratio shows the ability of a regional government to fund its service, government, and development activities independently from external assistance from the central government. The independence ratio of the East Lombok Regency Government from 2020 to 2022 can be seen in the following table.

**Table 1. Regional Financial Independence Ratio**

Year	Revenue	Balance Funds	Independence Ratio
2020	328.110.520.620,86	1.614.549.612.383,00	20,32%
2021	386.846.220.594,48	1.755.134.902.377,00	22,04%
2022	349.179.330.079,91	1.982.348.365.235,00	17,61%
	Average		19,99%

Source: Processed data, 2024

Based on the calculation results above, the Regional Financial Independence Ratio of East Lombok Regency in 2020 to 2022 is in the extremely low criteria, namely in 2020 it was obtained at 20.32%, in 2021 it was obtained at 22.04%, and in 2022 it was obtained at 17.61%. This shows a low level of community participation in paying regional levies and taxes as the main factor in Regional Original Income, so that the East Lombok Regency Government is considered not yet fully independent in carrying out its regional autonomy and is still dominated by assistance from the central government.

#### Regional Financial Dependency Ratio

The regional financial dependency ratio provides an overview of the level of dependence of a regional government on provincial and/or central government revenues. The regional financial dependency ratio of the East Lombok Regency Government from 2020 to 2022 can be seen in the following table.

**Table 2. Regional Dependency Ratio**

Year	Transfer Income	Regional income	Dependency Ratio
2020	2.054.356.596.013,00	2.537.387.991.490,34	80,96%
2021	2.179.913.539.403,00	2.737.163.601.352,12	79,64%
2022	2.439.127.844.699,00	2.818.641.754.648,58	86,54%
	Average		82,38%

Source: Processed data, 2024

Based on the calculation results above, the Regional Financial Dependency Ratio of East Lombok Regency in 2020 to 2022 is in the extremely high criteria, namely in 2020 it was obtained at 80.96%, in 2021 it was obtained at 79.64%, and in 2022 it was obtained at 86.54%. This illustrates the remarkably high dependence of the East Lombok Regency Regional Government because most of the regional income of the East Lombok Regency Government is still obtained from the Central Government and the Provincial Government.

#### Fiscal Decentralization Ratio

The fiscal decentralization ratio shows the level of local governments' ability to obtain regional finances to support funding for development activities. The fiscal decentralization ratio of the East Lombok Regency Government from 2020 to 2022 can be seen in the following table.

**Table 3. Fiscal Decentralization Ratio**

Year	Local Revenue	Regional Income	Dependency Ratio
2020	328.110.520.620,86	349.179.330.079,91	12,93%
2021	386.846.220.594,48	2.737.163.601.352,12	14,13%
2022	349.179.330.079,91	2.818.641.754.648,58	12,39%
	Average		13,15%

Source: Processed data, 2024

Based on the calculation results above, it can be seen that the ability of the East Lombok Regency Government to fund its activities from the aspect of the degree of fiscal decentralization in 2020 to 2022 is in the insufficient category, namely in 2020 it was 12.93%, in 2021 it was 14.13%, and in 2022 it was 12.39%. According to Febiandani and Susneo as quoted by Niswan Zukhri (2020), fiscal decentralization can reduce regional dependence on the central government accompanied by the creation of regional independence.

#### Local Original Income Effectiveness Ratio

The effectiveness ratio of Local Original Revenue provides an overview of the local government's ability to realize the set Local Original Revenue targets. The effectiveness ratio of the East Lombok Regency Government from 2020 to 2022 can be seen in the following table.

**Table 4. Regional Original Income Effectiveness Ratio**

Year	Realization of Local Revenue	Regional Original Income Target	Dependency Ratio
2020	328.110.520.620,86	349.179.330.079,91	12,93%
2021	386.846.220.594,48	2.737.163.601.352,12	14,13%
2022	349.179.330.079,91	2.818.641.754.648,58	12,39%
	Average		13,15%

Source: Processed data, 2024

Based on the calculation results above, there is a portrait of the realization of Regional Original Income from 2020 to 2022 which is fluctuating. In 2020 and 2021, the East Lombok Regency Government managed to achieve the effective category with a value of 90.33% in 2020 and 90.77% in 2021. However, this effectiveness has decreased from the effective category to less effective as seen from the effectiveness ratio in 2022 which can only obtain a value of 79.17%. This shows that the ability of the East Lombok Regency Government has not been able to fully realize the targeted Regional Original Income which is determined based on calculations of the real potential in the related area.

#### Conclusion

Based on the results of the analysis of the research and discussion that has been carried out above, the following conclusions can be drawn:

1. The calculation results of the regional financial independence ratio of East Lombok Regency from 2020 to 2022 are on average in the extremely low category with a value of 19.99%. This shows that the low level of community participation in Regional Original Income through payment of regional levies and taxes is still low, so that the East Lombok Regency Government still depends on external parties.
2. The calculation results of the financial dependency ratio of East Lombok Regency from 2020 to 2022 are on average in the extremely high category with a value of 82.38%. This illustrates the extremely high dependence on the Central Government and the Central Government in funding government and development activities.
3. The results of the calculation of the fiscal decentralization ratio of East Lombok Regency from 2020 to 2022 are on average in the less category with a value of 13.15%. This can be interpreted as a regional government that has not been able to optimize the real potential of the region to support regional independence. Therefore, East Lombok Regency still needs assistance from the central government and other legitimate regional income from the Provincial Government.
4. The results of the calculation of the financial effectiveness ratio of East Lombok Regency from 2020 to 2021 managed to reach the effective category and then decreased to reach the less effective category in 2021. Although on average the East Lombok Regency Regional Government managed to achieve a value of 86.76% with the effective category, the potential for Regional Original Income still cannot be fully realized and supports the independence of the regional government.

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