

## Financial Performance Based on the Local Government Budget (Case Study: East and Central Java Provincial Governments)

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### ABSTRACT

Financial performance is a description of the economic results that regional governments are able to achieve at a certain time through regional government economic activities. Local Own-source Revenue (PAD) is one of the financial sources owned by the district. Income comes from various components such as district taxes, district levies, Government Owned Business Entities profits and other income. East Java's PAD in 2022 increase drastically and is in the top five provinces with the highest revenues. This research aims to compare the financial performance of Local Government Budget (APBD) in East Java and Central Java Provincial Governments. This research method is quantitative descriptive using the calculation of five ratios: Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, Efficiency Ratio and Expenditure Ratio. The data used in this research is secondary data from the East Java and Central Java Province APBD financial reports for the 2018-2022 budget year. The results of this research are based on the Financial Capability Index (FCI) data analysis technique, shows that Central Java region is more capable of financing its regional activities. It shows that Central Java' FCI is classified as high and East Java is classified as medium performance.

**Keywords:** financial capability index; local government budget; financial performance; financial report.

### INTRODUCTION

Performance is a very important and interesting part because it has been proven to be a very important benefit, an organization expects its members to work seriously according to their abilities to achieve good work results, so that if everyone does not work well it will be difficult to achieve organization goals. Performance is the result of a process that is referred to and measured over a certain period of time based on a previously determined agreement. Performance basically always includes a mental attitude and behavior that believes that the work being done must be of better quality than the work done in the past, and that future work must be of higher quality than the current one.

E-government can influence transformation in the public sector in three main areas such as; economic dimension, social dimension and government dimension. The economic dimension deals with reducing operating costs to increase service delivery capacity, improving service coverage and quality, increasing response capacity to address challenges and improving road poverty to generate revenue. Social benefits include job creation, education and health improvement, increasing safety and security of life and property of citizens among others.

Financial performance is a description of the economic results that regional governments are able to achieve at a certain time through regional government economic activities. These activities are recorded and summarized into information that can be used as a medium for reporting conditions and

as material for evaluating the government in managing its finances (Harahap, 2020). In financial reports the information presented must be appropriate and correct in a financial report, because it will be very useful for the government in making decisions and to find out the government's financial performance in a transparent manner to be presented to the public.

Local Government Budget (APBD) is a financial report on regional government administration for a certain period. It provides an overview of the board's decision-making capacity. APBD is the most important provincial work program that supports the development of each region. Provinces have an obligation to transparently inform about mandatory reporting on the use of public money. One form of regional transparency to the public is the provision of factual regional financial accountability reports. (Oci et al., 2023)

The realization of the East Java Province PAD in 2022 nationally is 99.16 percent or IDR 349.98 trillion. Realization of provincial APBD in 2021 was 99.52 percent or IDR 354.75 trillion. When compared to 2020, it increased by 3.34 percent with a realization of 95.82 percent or IDR 323.88 trillion. Meanwhile, the realization of revenue in the 2022 LGB is 97 percent or IDR 665.48 trillion. This number is 2.15 percent higher than in 2021 of 94.85 percent or IDR 629.16 trillion. Apart from that, it is also 6.36 percent higher compared to 2020 of 90.64 percent or IDR 593.27 trillion.

APBD performance in the Central Java region up to 30 June 2022 is IDR. 49.28 trillion. This figure has increased by IDR 10.91 trillion or an increase of 28.4% compared to the same period in 2021. The largest contribution to this income came from excise revenues of IDR 25.19 trillion and Income Tax IDR 13.18 trillion. The largest growth came from Land and Building Tax (95.5%) and an increase in Other PNBK of (33.4%).

The size of the APBD in East Java and Central Java Provinces makes the government present management transparency. Regional economic reporting is used to increase transparency and as a measure of economic, social and even political decisions, as a sign of responsibility for regional economic management, and as material for evaluating regional efficiency. This research uses research from 2018-2022. This period was chosen because in this period the APBD of East Java and Central Java Provinces was increasing every year so further research needed to be carried out in that year. Apart from that, the reason for choosing this period is that it is the latest year that allows it to be used as a research population related to the availability and completeness of research data.

The author examines the extent of regional government effectiveness in managing the regional economy. The results of the analysis of regional economic relations can be used as a guide for management development across regional economic work periods.

## **Agency Theory**

Agency theory is an agency relationship as a contract between one or more people (called the principal) who appoints another (called the agent). In agency theory, there are two parties, namely the one who provides authority (principal) and the party who receives authority (agent). Legal regulations are a form of contract between the executive, legislature and the public. The contract between the principal and the agent is made with the hope that the agent will do the work as desired by the principal, so this can cause a conflict of interest between the principal and the agent. An agency relationship arises when one or more principals employ an agent to provide a service and then delegate decision-making authority to the agent. (Sari, 2021)

Agency theory explains that this agent relationship will arise when the principal assigns an agent to utilize his services and then delegates his authority in decision making to the agent. Agents and principals should be mutually sustainable and balanced in obtaining all government information in a region. However, in reality there is an information asymmetry where a provincial government as an agent has a lot of information about its territory and future prospects compared to the central government as the principal.

### **Understanding Regional Government Financial Performance**

Financial performance is the result of realized income and expenses which are prepared and measured based on the accrual basis. The conclusion is that it is a benchmark for the success of an organization or agency in developing its economic management. Financial statement analysis is interpretation of financial reports to evaluate financial performance, the results of which are used to make economic, social or political decisions. (Harahap, 2020)

In essence, the characteristics of good governance are participation, PADentation to the wider community, accountability, transparency, responsiveness, efficiency and effectiveness, fairness and inclusiveness, and compliance with laws and regulations. These characteristics must be used in regional economic management. Participation is one of five design approaches (political, technocratic, participatory, top-down and bottom-up). Participation is defined as involving the community in decision making, either directly or indirectly through representative institutions that can express their wishes. (Jundia et al., 2023)

### **Local Government Budget (APBD)**

A budget is an action plan in the form of an income and expenditure plan. In its simplest form, a budget is a document that describes the financial position of an organization and contains information about income, expenses and activities. Each budget provides information about what will be done in the next phase. The administration of government affairs is a regional authority which is financed from the regional revenue and expenditure budget.

Government Regulation Law no. 33 of 2004, "Local Government Budget, referred to as APBD, is a regional annual financial plan determined based on regional regulations concerning APBD". In Republic of Indonesia Trade Government Number 11 of 2006, "APBD is the basis for regional financial management within 1 (one) fiscal year from January 1 to December 31." All regional revenues and expenditures must be recorded and managed in the APBD. These regional expenditures and revenues are managed in order to successfully implement the tasks of the East Java and Central Java provincial governments in Fiscal Decentralization. Meanwhile, expenditure and receipts related to the implementation of auxiliary/ decentralization duties may not be recorded in the regional APBD.

### **Analysis of Government Financial Reports**

One of the procedures/techniques for analyzing financial reports is to calculate financial ratios. The use of Ratio analysis is focused on APBD, especially by comparing the results obtained from this period with the previous period, to determine trends. Or, measurements can also be made by comparing the financial ratios held by certain regional governments with other regions whose potential regional financial ratios are relatively the same, how does that regional government compare with other regional governments.

This research is only limited to calculating financial ratios for reports on the realization of regional income and expenditure budgets for the 2018-2022 fiscal year. Financial ratio analysis is used to measure regional financial performance and regional financial capacity. Financial performance analysis is an attempt to identify financial characteristics based on available financial reports. In government organizations, financial ratios are used as performance benchmarks, namely:

### Analysis of Regional Government Financial Performance

Financial performance is an important factor that needs special attention in realizing regional autonomy. Performance measurement will provide feedback on the plans that have been made. Financial performance measurements can be used to help improve local government performance. Financial performance measurements in the public interest can be used to assess and recover effectiveness by comparing programs and their implementation. Measuring local government financial performance can be done by analyzing financial reports.

### METHOD, DATA, AND ANALYSIS

The scope of this research is the Regional Government of East Java and Central Java Province. The method used is a case study. The case study was carried out to dig up information on existing problems in the Regional Government of East Java and Central Java Province. This type of research is descriptive research with quantitative data. The quantitative data in this research are the financial reports of the regional governments of East Java and Central Java Province. The data source used is secondary data in the form of financial reports of the regional governments of East Java and Central Java Province obtained from the official website <https://djpk.kemenkeu.go.id/>.

The population in this study is the financial reports of the Regional Government of East Java and Central Java Province. The sample in this research is the financial report of the Regional Government of East Java and Central Java Provinces for 2018, 2019, 2020, 2021 and 2022. Sampling was carried out using the technique purposive sampling. The data collection technique in this research uses a library study approach including research journals, books and news as references. In the process of collecting data from the official website <https://djpk.kemenkeu.go.id/> for all the data. Next, it is processed using formulas ratio regional government financial performance.

### The self-sufficiency ratio Independence Ratio

$$\text{Independence Ratio} = \frac{\text{Realization of PAD}}{\text{Central+Provincial Transfer+Loan}} \times 100\%$$

Information :

Local Own-source Revenue (PAD) and Central/Provincial Government Assistance and Loans are described in numerical data in the APBD realization report for East Java and Central Java Provinces.

**Table 1.** Relationship Patterns and Regional Capacity Levels

Financial Capabilities	Independence (%)	Relationship Patterns
Very low	0% - 25%	Instructive
Low	25% - 50%	Consultative
Average	50% - 75%	Participative
High	75% - 100%	Delegative

Source :(Jundia & Sarwono, 2023a)

### Fiscal Decentralization Degree Ratio

$$\text{Decentralization Degree Ratio} = \frac{\text{Realization of PAD}}{\text{Total Regional Income}} \times 100\%$$

Information :

PAD and Total Regional Income are described in numerical data in the APBD realization report for East Java and Central Java Provinces.

**Table 2.** Fiscal Decentralization Degree Ratio Interval Scale

No.	Degree Interval Scale Fiscal Decentralization	Regional Financial Capability
1.	00.00% - 10.00%	Very low
2.	10.01% - 20.00%	Low
3.	20.01% - 30.00%	Enough
4.	30.01% - 40.00%	Average
5.	40.01% - 50.00%	Good
6.	> 50.00%	Very good

Source : (Jundia & Sarwono, 2023a)

### PAD Effectiveness Ratio

$$\text{Effectiveness Ratio} = \frac{\text{Realization of PAD}}{\text{PAD Target based on Real Potential}} \times 100\%$$

Information :

Realization of PAD and PAD Targets are described in numerical data in the APBD realization report for East Java and Central Java Provinces.

**Table 3.** PAD Effectiveness Criteria

No.	Efficiency Criteria	Percentage Efficiency
1.	>100%	Very Effective
2.	100%	Effective
3.	90% - 99%	Moderate Effective
4.	75% - 89%	Less effective
5.	> 75%	Ineffective

Source: (Mahmud, 2019:141)

### Efficiency Ratio

$$\text{Efficiency Ratio} = \frac{\text{Costs incurred for PAD}}{\text{Realization of PAD}} \times 100\%$$

Information:

Realization of Regional Expenditures and Realization of Regional Income are described in numerical data in the APBD realization report for East Java and Central Java Provinces.

**Table 4.** PAD Efficiency Criteria

Effectiveness Criteria	Percentage Effectiveness
>100%	Not efficient
100%	Efficient
<100%	Very Efficient

Source(Jundia & Sarwono, 2023a)

### Expenditure Compatibility Ratio

$$\text{Indirect Expenditure Ratio} = \frac{\text{Indirect Expenditure}}{\text{Regional Expenditure}} \times 100\%$$

Source : (Jundia & Sarwono, 2023a)

$$\text{Direct Expenditure Ratio} = \frac{\text{Direct Expenditure}}{\text{Regional Expenditure}} \times 100\%$$

Source (Jundia & Sarwono, 2023a)

Descriptive analysis is a data analysis technique based on the different levels of existing characteristics and presented in tabular form, namely grouping or frequency classification based on qualitative information obtained from data collected through Financial performance ratios. In this research, qualitative analysis is used to describe the results of comparing the financial performance of the regional governments of East Java and Central Java Provinces based on financial reports for the 2018-2022 period.

### Share, Growth and Elasticity

The share indicator is used to see the contribution of APBD revenue to total expenditure. Serves also as a representative point of view Independence area. Growth indicators are used to assess the potential for future APBD growth. In contrast to the share indicator, high growth indicator values are areas with large non-natural resource producers. Meanwhile, PAD elasticity brings a proportional change in the number of goods demanded divided by a proportional change in nominal income. Share, growth and elasticity analysis can be calculated using the following formula:

$$\text{Share} = \frac{\text{PAD}}{\text{Total Expenditure}} \times 100\%$$

$$\text{Growth} = \frac{\text{PAD}}{\text{PAD } i-1} \times 100\%$$

$$\text{Elasticity} = \frac{\text{PAD Growth}}{\text{GDRB Growth}} \times 100\%$$

Source (Jundia & Sarwono, 2023a)

### Regional Capability Map

Regional capability maps as accurate data analysis. The quadrant method is one way to see regional financial capabilities. Through the share value or how big the role of regional income is in total APBD. The growth value is used to determine regional income growth in the APBD.

**Table 5.** Regional Capability Map

<p><b>QUADRANT I</b> Share : High Growth: High</p>	<p><b>QUADRANT II</b> Share : Low Growth : High</p>
<p><b>QUADRANT III</b> Share : High Growth : Low</p>	<p><b>QUADRANT IV</b> Share : Low Growth: Low</p>

### Financial Capability Index

The financial capability index describes how much a region's ability is to finance its government activities by measuring share, growth and elasticity. Financial Capability Index analysis can be calculated using the following formula:

$X_s$  = Average PAD Share

$X_g$  = Average PAD Growth

$X_e$  = Average PAD Elasticity

$$FCI = \frac{X_s + X_g + X_e}{3}$$

The criteria for measuring the level of regional financial capacity are as follows:

**Table 6.** Financial Capability Level Criteria

Financial Capability Index	Classification
0.00-0.33	Low
0.34-0.43	Average
0.44-1.00	High

Source: (Marliani, 2022)

## RESULTS AND DISCUSSION

Analysis of Regional Government Financial Performance

### Independence Ratio

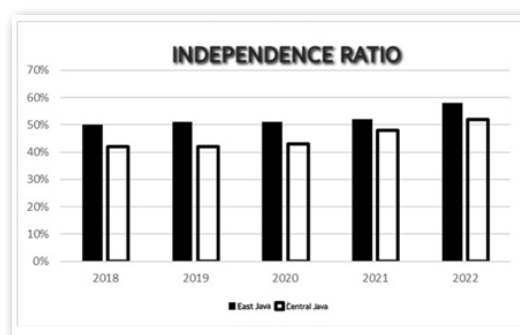
The Regional Financial Independence Ratio is shown by the amount of PAD compared to regional income PADginating from other sources (transfer income), including: tax revenue sharing, non-tax revenue sharing from natural resources, general allocation funds and special allocations. Emergency funds and loans. The formula used to calculate the independence ratio is :

**Table 7.** Regional Government Financial Independence Ratio East Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	Government Assistance and Loans	Independence Ratio	Financial Capabilities	Relationship Patterns
2018	37,086.32	74,474.76	50%	Low	Consultative
2019	39,344.67	77,754.52	51%	Average	Participative
2020	37,042.89	73,317.23	51%	Average	Participative
2021	40,942.41	78,032.21	52%	Average	Participative
2022	42,769.19	73,330.59	58%	Average	Participative
<b>Average</b>			<b>52.4%</b>	<b>Average</b>	<b>Participative</b>

**Table 8.** Regional Government Financial Independence Ratio Central Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	Government Assistance and Loans	Independence Ratio	Financial Capabilities	Relationship Patterns
2018	26,766.78	63,433.19	42%	Low	Consultative
2019	28,648.04	67,543.19	42%	Low	Consultative
2020	28,056.37	64,983.90	43%	Low	Consultative
2021	31,611.20	65,891.80	48%	Low	Consultative
2022	32,888.21	63,575.44	52%	Average	Participative
<b>Average</b>			<b>45.4%</b>	<b>Low</b>	<b>Consultative</b>



**Figure 1.** Comparison graph of provincial independence ratios

### East Java and Central Java 2018-2022

The graph of the Independence Ratio for East Java and Central Java Provinces for 2018-2022 shows that East Java Province is still superior in regional independence. Comparison of the independence ratio of the two provinces is:

East Java is at a percentage of 50% - 58% for five years experiencing an increase. However, in 2019-2020 it remains at a percentage of 51%, but in this case East Java on average remains at moderate financial capacity with a participatory relationship pattern. This pattern shows that the role of the central government has been reduced, because the East Java Regional Government’s level of independence has approached “capable” in implementing all regional autonomy.

Central Java has been at a percentage of 42% - 52% for the last five years. There was no increase/ decrease in 2018-2019 and only remained at a percentage of 42%. In this case, Central Java Province has also had low financial capacity for four consecutive years and will only increase in 2022. The average relationship pattern in Central Java, namely Consultive, means a condition where central government interference has been reduced because the Central Java government is considered “slightly capable”. in exercising regional autonomy.

On average, the Regional Government of East Java Province is still superior with a percentage of 52.4% with regional capacity in the medium criteria and a participatory relationship pattern in the independence of regional financial capacity compared to Central Java Province which is only in the percentage of 45.4% with regional capacity criteria low and a consultative relationship pattern. This is because the province of East Java is able to carry out all its regional autonomy and the central government is only an observer, and is also supported by high community participation in paying regional taxes and levies to increase PADginal Regional Income.



## Decentralization Ratio

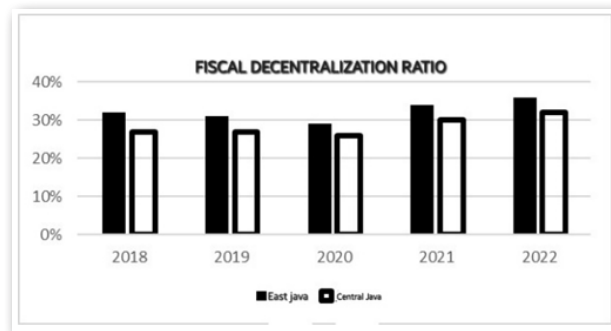
The Degree of Fiscal Decentralization Ratio can be calculated based on the calculation results of PAD divided by Total Regional Income. This ratio analysis shows the contribution of PAD to Total Regional Income. The higher the PAD contribution, the higher the regional ability to implement decentralization. The degree of Fiscal Decentralization can be calculated using the following formula:

**Table 9.** Fiscal Decentralization Degree Ratio East Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	Total Regional Income	Decentralization Ratio	Decentralization Criteria
2018	37,086.32	115,182.34	32%	Average
2019	39,344.67	125,352.39	31%	Average
2020	37,042.89	128,587.74	29%	Moderate
2021	40,942.41	122,027.62	34%	Average
2022	42,769.19	120,414.54	36%	Average
<b>Average</b>			<b>32.4%</b>	<b>Average</b>

**Table 10.** Fiscal Decentralization Degree Ratio Central Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	Total Regional Income	Decentralization Ratio	Decentralization Criteria
2018	26,766.78	97,513.32	27%	Average
2019	28,648.04	104,530.58	27%	Moderate
2020	28,056.37	109,569.01	26%	Moderate
2021	31,611.20	104,791.22	30%	Moderate
2022	32,888.21	104,017.75	32%	Average
<b>Average</b>			<b>28.4%</b>	<b>Moderate</b>



**Figure 2.** Fiscal Decentralization Ratio Comparison Chart East Java and Central Java Provinces 2018-2022

The graph of the Decentralization Ratio for East Java and Central Java Provinces for 2018-2022 shows that East Java Province is still superior in financial capacity. Comparison of the Ratio of the Degree of Decentralization of the two provinces, namely:

East Java has a higher PAD contribution compared to Central Java province. In the calculation of the East Java Fiscal Decentralization Ratio, it was at the average of the moderate criteria for four years and decreased in 2020 to the adequate criteria with a value of 29%, whereas in the previous year it was at a percentage of 31%, which in this case means a decrease of two percent. The decline occurred due to the Covid-19 outbreak which caused a decline in the national economy, resulting in a decrease in regional PAD.

Central Java has a lower PAD contribution compared to East Java Province. In the calculation of the Fiscal Decentralization Ratio, East Java has been in the average adequate criteria for four consecutive years and has increased to be in the moderate criteria in the fifth year with a percentage of 32%, this means an increase of two percent compared to the previous year.

On average, the Regional Government of East Java Province is still superior in decentralizing regional financial capabilities compared to Central Java Province. East Java is at a percentage of 32.4% with Medium criteria, while Central Java is at a percentage of 28.4% and is only at sufficient criteria in implementing regional government fiscal decentralization.

### Effectiveness Ratio

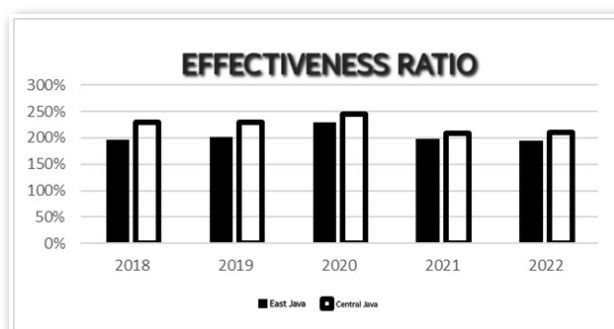
The PAD Effectiveness Ratio describes the regional government’s ability to realize the planned PAD compared to the targets set based on the real potential of the region. The higher the PAD Effectiveness Ratio, the better the local government’s performance. The formula used to calculate the PAD Effectiveness Ratio according to (Mahmudi, 2019:141) is as follows:

**Table 11.** Effectiveness Ratio for East Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	PAD revenue targets are based on Real potential	Effectiveness ratio	Effectiveness ratio criteria
2018	37,086.32	32,815.36	113%	Very effective
2019	39,344.67	35,465.94	111%	Very effective
2020	37,042.89	39,782.73	93%	Effective
2021	40,942.41	37,044.34	112%	Very effective
2022	42,769.19	39,320.25	109%	Very effective
	<b>Average</b>		<b>107.6%</b>	<b>Very effective</b>

**Table 12.** Effectiveness Ratio for Central Java Province 2018-2022 In billions of IDR

Year	Realization of PAD	PAD revenue targets are based on Real potential	Effectiveness ratio	Effectiveness ratio criteria
2018	26,766.78 M	25,132.96 M	107%	Very effective
2019	28,648.04 M	27,422.03 M	104%	Very effective
2020	28,056.37 M	30,866.98 M	91%	Effective
2021	31,611.20 M	29,538.30 M	107%	Very effective
2022	32,888.21 M	32,699.21 M	101%	Very effective
	<b>Average</b>		<b>102%</b>	<b>Very effective</b>



**Figure 3.** Comparison graph of the effectiveness ratio of East Java and Central Java Provinces 2018-2022

The graph of the Effectiveness Ratio for East Java and Central Java Provinces for 2018-2022 shows that East Java Province is still superior in terms of the percentage of PAD effectiveness. Comparison of the Effectiveness Ratio of the two provinces, namely:

East Java has superior regional potential and can be used as Regional PADginal Income for real regional potential, so that the regional government can realize its income well and even higher than the previously set targets. Calculation of the effectiveness ratio shows that East Java is always at a percentage of >100% and only once <100% with a percentage of 93% in 2020. So, based on the figures achieved by East Java, the regional government is included in the Very Effective criteria on average. and the government's performance is considered good.

Central Java also has a lot of regional potential and can be used as a main component in PADginal Regional Revenue, so that the government in implementing regional autonomy has also met the good performance criteria. With a percentage > 100% and only once < 100%, which is the same as East Java in 2020 with a percentage of 91%, the Central Java government on average has very effective PAD effectiveness. Because of this, the Central Java government is considered capable of realizing PAD compared to the target that was set at the beginning.

The provincial governments of East Java and Central Java are in the same criteria for effectiveness ratios, namely very efficient criteria with a percentage of 107.6% for East Java and 102% for Central Java. On average, the East Java government is still superior in assessing regional government performance.

### Efficiency Ratio

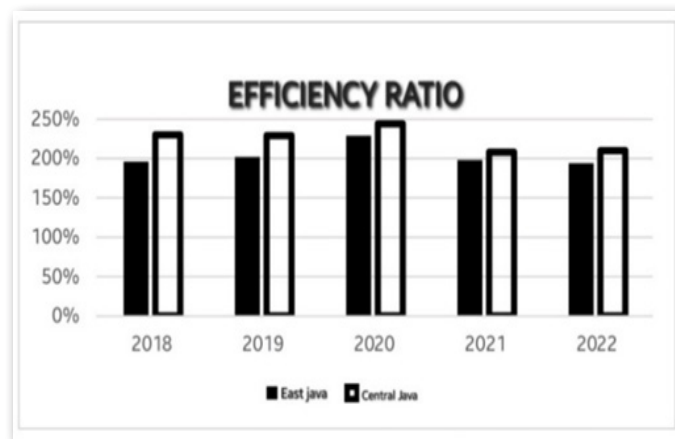
Analysis of the efficiency of regional budget management is intended to find out how much efficiency the implementation of regional autonomy has by comparing output and input (Mahmudi, 2019: 164). The formula used to calculate this ratio is:

**Table 13.** Efficiency Ratio for East Java Province 2018-2022 In billions of IDR

Year	Costs incurred to build PAD	Realization of PAD	Efficiency ratio	Efficiency ratio criteria
2018	72,779.25	37,086.32	196%	Not efficient
2019	79,530.92	39,344.67	202%	Not efficient
2020	84,680.17	37,042.89	229%	Not efficient
2021	81,180.93	40,942.41	198%	Not efficient
2022	83,114.96	42,769.19	194%	Not efficient
<b>Average</b>			<b>203.8%</b>	<b>Not efficient</b>

**Table 14.** Efficiency Ratio for Central Java Province 2018-2022 In billions of IDR

Year	Costs incurred to build PAD	Realization of PAD	Efficiency ratio	Efficiency ratio criteria
2018	61,531.54	26,766.78	230%	Not efficient
2019	65,606.42	28,648.04	229%	Not efficient
2020	68,444.65	28,056.37	244%	Not efficient
2021	65,845.97	31,611.20	208%	Not efficient
2022	68,957.62	32,888.21	210%	Not efficient
<b>Average</b>			<b>224.2%</b>	<b>Not efficient</b>



**Figure 4.** Comparison Chart of Efficiency Ratios for East Java Province And Central Java 2018-2022

The graph of the Efficiency Ratio for East Java and Central Java Provinces for 2018-2022 shows that the two provinces are in inefficient percentage criteria. The explanation of the Efficiency Ratio for the two provinces is:

East Java has a lot of regional potential that can be used as the main component of PAD, so on the other hand the expenditure incurred by the government in maintaining regional potential is also large. Apart from that, expenditure for autonomous government activities is also high so that expenditure and income costs often have a deficit difference which causes inefficiency in PAD management. Over the last five years, the efficiency criteria in East Java have been inefficient for three years at a percentage of <200% and the highest in 2020 during the pandemic, namely reaching 229%, this is due to regional potential not being able to be utilized properly due to changes in regional autonomy at that time. , as well as rising costs for regulations and community social assistance.

Central Java also has diverse regional potential, so it also requires a lot of maintenance costs for superior real regional potential. So that expenditure is more than the income earned because apart from maintenance it is also used for local regional autonomy activities. The calculation of the Efficiency Ratio was found to be inefficient because the difference between the calculated deficit and Central Java is always at a percentage of >200%, so in this case the government must be able to reduce spending, especially on regional autonomy activities. The highest percentage in Central Java was actually in 2018 at 230%, where not much regional potential has emerged to become the main component in PAD.

The average calculated efficiency ratio for East Java and Central Java is only slightly different and remains within the inefficient criteria, but in this case East Java's value is lower, namely 203.8% while Central Java's is 224.2%. So in this case East Java for assessing the PAD efficiency ratio is better than Central Java.

### Expenditure Compatibility Ratio

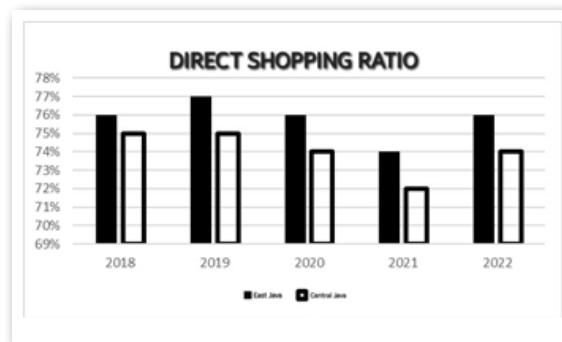
The compatibility ratio describes how local governments prioritize the optimal allocation of their funds to operational expenditure and capital expenditure. The higher the percentage of funds allocated for operating expenditure means that the percentage of capital expenditure used to provide community economic infrastructure tends to be smaller. Simply put, the harmony ratio can be formulated as follows:

**Table 15.** East Java Provincial Government Compatibility Ratio 2018-2022 In billions of IDR

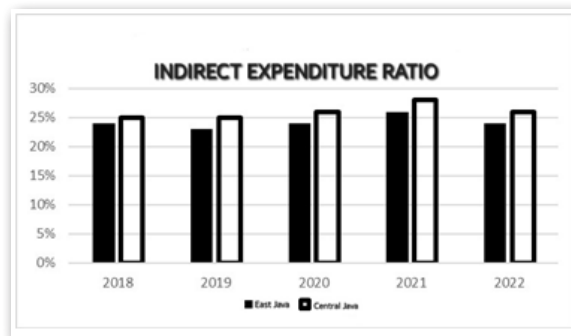
Year	Total Indirect Expenditure	Total Expenditure	Total Regional Expenditure	Indirect Expenditure Ratio	Direct Spend Ratio
2018	29,255.28	92,109.19	121,364.47	24%	76%
2019	30,600.28	101,376.97	131,977.25	23%	77%
2020	33,709.54	107,385.44	141,094.98	24%	76 %
2021	34,658.71	99,756.67	134,415.38	26%	74%
2022	31,947.21	100,973.91	132,921.12	24%	76%
<b>Average</b>				<b>24.2%</b>	<b>75.8%</b>

**Table 16.** Central Java Provincial Government Harmony Ratio 2018-2022 In billions of IDR

Year	Total Indirect Expenditure	Total Expenditure	Total Regional Expenditure	Indirect Expenditure Ratio	Direct Spend Ratio
2018	25,554.26	77,042.78	102,597.04	25%	75%
2019	27,717.15	81,027.87	108,745.02	25%	75%
2020	30,172.45	84,069.00	114,241.45	26%	74%
2021	29,925.82	78,796.01	108,721.83	28%	72%
2022	27,978.74	80,420.82	108,399.56	26%	74%
<b>Average</b>				<b>26</b>	<b>74%</b>



**Figure 5.** Comparison Chart of Provincial Direct Expenditure Ratios East Java and Central Java 2018-2022



**Figure 6.** Comparison graph of provincial indirect expenditure ratios East Java and Central Java 2018-2022

The Harmony Ratio Graph for East Java and Central Java Provinces for 2018-2022 contains 2 components, namely the Direct Expenditure Ratio and the Indirect Expenditure Ratio. The Direct

Expenditure Ratio shows that East Java is superior in percentage terms. Meanwhile, Central Java's indirect expenditure ratio is superior. The explanation of the Expenditure Harmony Ratio for the two provinces is:

East Java's direct expenditure ratio is in the less effective criteria because the ratio is <80% each year. This means that regional governments are less than optimal in distributing funds for operational activities and regional spending. Suboptimal allocation of funds causes obstacles to the government's autonomous activities and has an impact on the lack of economic infrastructure in the community which tends to become smaller. Meanwhile, on the Indirect Expenditure Ratio side, the condition is actually getting worse because it is in the Ineffective criteria <60%. In reality, East Java has only been in the range of <30% in the last five years and this means that the allocation of indirect funds to the East Java Regional Government is ineffective and not carried out well.

Central Java's direct expenditure ratio is in the Less effective criteria because it is at a percentage of <80%. In this case, it means that the government is less than optimal in channeling funds for regional government regulatory activities. Allocation of funds that is less than optimal can hinder the real potential of the region and even result in minimal facilities and infrastructure for regional government activities. On the other hand, Central Java's Indirect Expenditure Ratio is actually superior to East Java's, but remains in the ineffective criteria and is at a percentage of <60% with the real amount each year at the highest percentage in 2021 of 28%.

Calculation of the Expenditure Capability Ratio which has been divided into two components, namely the Direct Expenditure Ratio and the Indirect Shopping Ratio. In the Direct Expenditure Ratio, East Java is superior with a percentage of 75.8%, while Central Java is at a percentage of 74%. The difference between the two provinces does not have a significant effect because the percentage of effectiveness remains in the financial performance criteria which is less effective. Meanwhile, Central Java's Indirect Expenditure Ratio is actually superior with a percentage of 26%, while East Java's is 24.2%. The difference between the two provinces also does not have a significant effect because both are in the effectiveness criteria of the percentage of ineffective financial performance.

### Growth, Share and Elasticity

The Share indicator is used to see the contribution of APBD income to total expenditure. Serves also as a representative from the point of view of regional independence. Regions that produce natural resources usually have a high share value, because these regions can run the government independently and can contribute greater spending income. If PAD is very low, the only way to overcome this is to reduce APBD operational expenditure and increase capital or investment expenditure so that in the future it can contribute greater income.

**Table 17.** East Java Provincial Government Growth PAD and Central Java 2018-2022 In billions of IDR

Year	Realization of PAD		Growth PAD	
	East Java	Central Java	East Java	Central Java
2018	37,086.32	26,766.78	-	-
2019	39,344.67	28,648.04	106%	107%
2020	37,042.89	28,056.37	-106%	98%
2021	40,942.41	31,611.20	111%	113%
2022	42,769.19	32,888.21	104%	104%
<b>Average PAD Growth</b>			<b>43%</b>	<b>84.4%</b>

**Table 18.** Share of East Java Provincial Government and Central Java 2018-2022

Year	Share Value	
	East Java	Central Java
2018	31%	25%
2019	30%	26%
2020	26%	25%
2021	30%	29%
2022	32%	30%
<b>Average Share</b>	<b>29.8%</b>	<b>27%</b>

**Table 19.** GDP Growth of East Java and Central Java Provincial Governments 2018-2022 In Trillions of IDR

Year	GRDP		GRDP Growth	
	East Java	Central Java	East Java	Central Java
2018	2,189.78	1,268.45	-	-
2019	2,352.43	1,362.46	107%	107%
2020	2,299.46	1,348.60	98%	99%
2021	2,454.50	1,400.64	107%	104%
2022	2,730.91	1,050.00	111%	75%
<b>Average GDP Growth</b>			<b>105.75%</b>	<b>96.25%</b>

**Table 20.** Elasticity of PDRB of East Java and Central Java Provincial Governments 2018-2022

Year	Growth PAD		Growth GRDP		Elasticity PAD	
	East Java	Central Java	East Java	Central Java	East Java	Central Java
2018	-	-	-	-		
2019	106%	107%	107%	107%	99%	100%
2020	-106%	98%	98%	99%	-108%	98%
2021	111%	113%	107%	104%	104%	-91%
2022	104%	104%	111%	75%	94%	106%
<b>Average Elasticity of GDP</b>					<b>47.25%</b>	<b>53.25%</b>

The Growth indicator is used to assess the potential for future APBD growth. In contrast to the Share indicator, high Growth indicator values are areas with large non-natural resource producers. Because areas with high levels of non-natural resources are areas with service industries that have low or relatively long growth capacity based on research from (Jundia & Sarwono, 2023a). Meanwhile, PAD elasticity brings a proportional change in the number of goods demanded divided by a proportional change in nominal income.

From the results of the Growth, Share and Elasticity calculations for the East Java and Central Java Provincial Government's LRA for the 2018-2022 budget year, the following calculations are obtained: The East Java Provincial Government has an average growth of 43% and Central Java is 84.4%. The significant difference between the two provinces is due to the fact that East Java's growth in 2020 was at a minus percentage of -106%, while Central Java's growth decreased compared to the previous year, but did not decrease drastically and was still at a percentage of 98%. Growth in East Java and Central Java Provinces also always experiences a significant increase, except in 2020.

The East Java Provincial Government has an average share of 29.8% while Central Java is 27%. The difference in share between the two provinces is not contrasting because it only differs by 2% due to regulatory changes that occurred in 2020. The highest share value in East Java is in 2022 at 32%, while in Central Java it is in 2021 at 30%.

In Elasticity data analysis, two components are used, namely PAD growth and GRDP growth. It is known that the East Java average is 7.25% while Central Java is 53.25%. The decline in East Java occurred in 2020 by -108%, and Central Java also experienced a decline in 2021 of -91%.

### Regional Financial Capacity Map

Mapping regional financial capacity based on the quadrant method, East Java's position is in quadrant IV, namely a low share of 29.8%, low growth of 43%. This condition is not ideal because the government has not been able to properly utilize the regional potential it has as the main component of PAD. Proper utilization of the real potential of the region as well as reducing maintenance costs and regional government regulatory activities need to be carried out in order to encourage an increase in PAD. Meanwhile, Central Java is in quadrant II, namely a share of 27%, growth of 84.4%. This condition is not yet ideal, but the region has local potential development, so PAD has the opportunity to have a big role in Total Expenditure. PAD's contribution to Total Expenditure is still low but PAD growth is high. This means that the Central Java Regional Government can still explore regional potential to the fullest, so that it can increase PAD which plays a big role in the APBD.

### Financial Capability Index

- Xs = Average PAD Share
- Xg = Average PAD Growth
- Xe = Average PAD Elasticity

$$FCI = \frac{Xs+Xg+Xe}{3}$$

**Table 21.** Regional Financial Capacity Index for Central Java Province and East Java 2018-2022

	East Java	Central Java
Growth	0.43	0.844
Share	0.298	0.27
Elasticity	0.472	0.533
<b>FCI</b>	<b>0.4</b>	<b>0.549</b>

The financial capacity index describes how much a region's ability is to finance its government activities by measuring Share, Growth and elasticity. Judging from the calculation results of the Regional Government Financial Capability Index for East Java and Central Java for the 2018-2022 fiscal year, the index scale shows the East Java Government at 0.4 and Central Java at 0.549. This means that East Java's Financial Capability is in the Medium classification, while Central Java is actually in the High classification with a value of 0.549. The high level of financial capability in Central Java is due to PAD which continues to increase and only fell once in 2020 but did not decrease drastically, whereas in East Java the decline in PAD in 2020 fell significantly due to the impact of the Covid-19 pandemic. The high level of financial capability of the Central Java government is caused by the large amount of financial assistance from the Central Government as stated in the Independence Ratio which shows that the Central Java Regional Government has a low level of independence. On the other hand, East Java has a moderate level of capability because in 2020 assistance from the Central Government actually decreased compared to the previous year and East Java has a moderate Independence Ratio.



## CONCLUSIONS AND SUGGESTIONS

The East Java Provincial Government has a lower average growth than Central Java. The significant difference between the two provinces is due to the fact that East Java's growth in 2020 was at a minus percentage, while Central Java's growth decreased compared to the previous year, but did not decrease drastically and was still at a high percentage. Growth in East Java and Central Java Provinces also always experiences a significant increase, except in 2020. The East Java Provincial Government has an average share a little bit higher than Central Java. The difference in share between the two provinces is not contrasting because it only differs by 2% due to regulatory changes that occurred in 2020. The highest share value in East Java is in 2022, while in Central Java is in 2021. In Elasticity data analysis, two components are used, namely PAD growth and GRDP growth. It is known that the East Java average is much lower than Central Java. The decline in East Java occurred in 2020, and Central Java also experienced a decline in 2021. Mapping regional financial capacity based on the quadrant method, East Java's position is in quadrant IV, namely a low share, and low growth. This condition is not ideal because the government has not been able to properly utilize the regional potential it has as the main component of PAD. Calculation of the Financial Capacity Index for the Regional Governments of East Java and Central Java for the 2018-2022 fiscal year, the index scale shows the East Java Government is lower than Central Java. This means that East Java's Financial Capability is in the medium classification, while Central Java is actually in the igh classification.

The regional government of East Java province must further increase natural resources and explore the potential that exists in its region so that it can be used as regional income to increase the amount of PAD for the future period. Apart from that, government spending on administration and accommodation for public figures/actors in the government sector should be minimized so that the funds that go directly to the community can be sufficient for all needs in that period. Future researchers are expected to be able to add more official data so that research can be considered accurate. However, researchers must also remain focused on its relationship to the research being conducted. In this case, the data obtained must be relevant to the research. Future researchers are also expected to be able to process secondary data into data that can be tested using statistics so that the discussion can be more detailed and can add questionnaires if necessary.

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