

Financial Performance: Pasuruan Regional Revenue and Expenditure in 2018-2023

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Abstract

This research effort aims to conduct a comprehensive analysis on the fiscal performance of Pasuruan Regency from 2018 to 2023 and to evaluate the efficiency of regional budget management. The results of the decentralization ratio calculation get an average of 20.92% with a sufficient performance. The results of the calculation of the expenditure growth ratio got an average of 3.45% with poor performance. The ratio of operational expenditure to capital expenditure received an average of 65.36% with good performance. The ratio of capital expenditure to total expenditure got an average of 13.16% with good performance. The ratio of direct and indirect spending to total spending has poor performance results. The tax effectiveness ratio got an average of 97.50% with quite effective performance. The results of this study are expected to be an input for the Pasuruan Regency government which aims to improve budget efficiency and strengthen regional financial autonomy.

ARTICLE INFO

Article History

Accepted : 22-06-2024

Revised : 14-10-2024

Published : 31-10-2024

Keywords:

Regional Financial Performance,
Fiscal Independence, Financial
Ratios

INTRODUCTION

In the authority to regulate its own territory or in terms of regional autonomy, where each local government has the authority to manage the development, creativity and independence of its region so that the local government is encouraged to develop its regional prosperity (Christia & Ispriyarto, 2019). The independence of each region is different, which shows the ability of the region to generate its own income without depending on the central government (Ramadhan et al., 2022).

Regional freedom related to financial performance is a measure of the ability of the region to monitor, collect and manage the region's original income to support government financing and regional expenditure. The importance of measuring revenue performance is to use it to assess the management of the government effectively and efficiently. Financial achievement is also to see the ability of revenue power to finance regional expenditure.

An overview of the amount of financing requests in all regional activities that have been presented in the form of values and become the basis for regional financial management for a certain period of time in the form of the Regional Revenue and Expenditure Budget (Rabban, 2020). This budget is used to measure the ability of the

government to manage the regional economy starting from development, creativity to advance the region, and good public services directly and indirectly.

Pasuruan Regency in its performance seeks to increase its local revenue, through financing and regional spending because the two things are interconnected and one unit so that they cannot be separated. This means that local revenue plays a role in generating regional income, thus regional spending places its funds properly so that regional spending and financing can be used as a reference for the success of local government. A high level of independence for a region is a sign that the region is able to finance all expenditures without involving the central government. And with a high level of concentration it has a major contribution in generating regional income.

Decentralization Ratio

The level of decentralization is a measure used to assess the ability of the region to finance its kingdom by optimizing local revenue. Where the higher the decentralization advantage, the higher the region's original income obtained. With the following formula:

$$\text{Decentralization Stage} = \frac{\text{Local Revenue}}{\text{Total Overseas Revenue}} \times 100\%$$

Categorization of the assessment stage to determine the ratio achievement criteria:

00,00% - 10,00%, it is very less

10,01% - 20,00%, it is less

20,01% - 30,00%, it is enough

30,01% - 40,00%, it is medium

40,01% - 50,00%, it is good

>50%, it is very good (Harahap, 2020:36)

Regional Expenditure Analysis

Regional expenditure analysis is a very important thing to do, where this activity is used to assess whether the local government has used the Regional Budget economically, efficiently and effectively (Makka, et al., 2015: 229). This analysis aims to improve the performance of regional expenditure financing through determining priorities in expenditure allocation, as well as improving transparency and accountability. So that the Regional Budget can be used optimally and spent appropriately for development and community service.

Analysis of Expenditure Growth Ratios

In implementing regional autonomy, local governments must be able to oversee regional spending, implement spending efficiency and budget savings. Expenditure growth must be accompanied by balanced revenue growth, if this is not done in the medium term it can disrupt regional fiscal sustainability and health (Sholeh, 2015: 31). The formula is as follows:

$$\text{Expenditure Growth} = \frac{\text{Expenditure for The Year After} - \text{Expenditure for The Year Before}}{\text{Expenditure for The Year After}} \times 100\%$$

Assessment in income growth ratio analysis:

1. Expenditure growth that is less than revenue growth indicates good expenditure performance
2. Expenditure growth that is greater than revenue growth indicates poor expenditure performance

Ratio of Operating Expenditure to Total Expenditure

Operating Expenditure Ratio is the ratio between operating expenditure and total expenditure. This ratio provides information about the share of the region's expenditure that is earmarked for operating expenditure. Management expenditure is a type of expenditure whose benefits can be used within one financial period. It is short-term in nature and under certain circumstances can become routine or recurring (Suhaedi, 2019). Comparison of caretaking expenditures affects the amount of regional expenditures, between 60% - 90%. When the ratio of Operating Costs to Total Expenditures is equal to or less than 90%, it indicates good management expenditures. If the ratio of Operating Costs to Total Expenditures is equal to or exceeds 90%, this indicates weak operating costs. The formula used to calculate the Operating Expenditure Ratio is as follows:

$$\text{Ratio of Operating Expenditure to Total Expenditure} = \frac{\text{Realization of Operating Expenditure}}{\text{Regional Expenditure Target}} \times 100\%$$

Ratio of Capital Expenditure to Total Expenditure

Capital expenditure is expenditure made to acquire tangible fixed assets that have a useful life of more than 12 months, to be used in government activities (Hidayat, et al., 2022). This is different from maintenance expenditure, where expenditure on capital expenditure will provide long-term benefits. The formula is as follows:

$$\text{Ratio of Capital Expenditure to Total Expenditure} = \frac{\text{Realization of Capital Expenditure}}{\text{Regional Expenditure Targets}} \times 100\%$$

The criteria of ratio of capital expenditure to total expenditure:

1. If the ratio of capital expenditure to total expenditure exceeds 5%, then operating costs are well managed.
2. If the ratio of capital expenditure to total expenditure is less than 5%, then operating costs have not been well managed.

Ratio of Direct and Indirect Expenditure to Total Expenditure

Direct Expenditure is expenditure that is budgeted in the Regional Budget and is directly related to the implementation of programs and activities. Meanwhile, Indirect Expenditure is budgeted expenditure that is not directly related to the implementation of programs and activities (Erowati & Astuti, 2023: 38). This ratio is used to see whether the existing expenditure has been used effectively or not. This ratio can also generate information which can then be used to make budgeting decisions for the following year. The formula is as follows:

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

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

Criteria of the ratio:

1. The direct expenditure ratio is greater than the indirect expenditure ratio, meaning that the direct expenditure performance is good.
2. The direct expenditure ratio is less or equal to the indirect expenditure ratio, meaning that the direct expenditure performance is not good (Selvi & Hapsari, 2023).

Tax Effectiveness Ratio

With this ratio, you can find out the extent to which the realization of regional taxes is related to the goals you want to achieve, and can also promote government performance as a measure related to the assessment of regional financial performance. (Mustofa, 2018). The formula is as follows:

$$\text{Ratio of Tax Effectivities} = \frac{\text{Regional Tax Revenue Ratio}}{\text{Regional Tax Revenue Target}} \times 100\%$$

Criteria of the ratio:

1. If it is more than 100% then it is very effective
2. 100%, it is effective
3. 90% – 99%, it is quite effective
4. 75% – 89%, it is less effective
5. If it is less than 75% then the ratio is ineffective

Research conducted by Selvi & Hapsari in 2023 with the title "Performance of Regional Revenue and Expenditure in Tulungagung Regency Before, During and After the Covid-19 Pandemic (2017-2022)" found that the performance of revenue and expenditure in Tulungagung had sufficient results. It can be said to be sufficient because the average obtained from the analysis of the decentralization level is sufficient and the ratio of financial freedom is found to be low. Then for the ratio of average growth of expenditure, the result obtained is not good because the growth of expenditure is higher than the growth of revenue. If we look at the average operating expenditure and capital expenditure, good results are obtained, then the Tulungagung regional government has allocated funds according to its needs. However, for direct and indirect expenditure the result is not good, where direct expenditure is smaller than indirect expenditure.

A study conducted by Priambodo in 2015 with the title "Analysis of the Effect of Regional Original Revenue, Capital Expenditure, Labor on Economic Growth" carried out in regions or cities in Central Java found that local governments need to optimize regional taxes that have not been able to be received. Budget allocation for capital expenditure should be more directed to infrastructure development to support economic growth that can have a positive impact on the community's economy.

From the previous research, this study is worth doing because it can find out whether the performance of Pasuruan region is better than other region, and to find out the factors that influence it. This investigation can also be used as an assessment so that the performance for the following year can be better than the previous year.

METHODOLOGY

This research uses descriptive data analysis methods with a qualitative approach. The aim is to determine the growth of income and expenditure of the Pasuruan Regency community. The data used is included in the type of research with secondary data. Secondary data is data taken from other sources by researchers, usually this data is in the form of diagrams, graphs or schedules of important information (Rosini, 2023: 82). Because the data used is taken from the Central Bureau of Statistics of Pasuruan Regency.

This research uses data on expenditure realization reports for the period 2018-2023. This research uses documentation procedures as a method of collecting data sourced from the annual report of the Pasuruan Regency Statistics Agency. The reports required in this study are revenue reports and expenditure reports in the Pasuruan Regency area.

RESULTS AND DISCUSSION

Results

Decentralization Ratio Analysis

Table 1. The Ratio of The Degree of Decentralization of Pasuruan Regency from 2018 to 2023

Year	Total Revenue (Billion)	Revenue (Billion)	Decentralization Stage	Performance
2018	595.967.644 B	3.258.476.591 B	18,28%	Less
2019	684.119.688 B	3.524.027.342 B	19,41%	Less
2020	700.151.910 B	3.217.081.717 B	21,76%	Enough
2021	701.199.342 B	3.264.856.321 B	21,47%	Enough
2022	736.238.743 B	3.352.368.858 B	21,96%	Enough
2023	825.314.982 B	3.658.922.507 B	22,55%	Enough
Mean	707.165.384,83 B	3.379.288.889,33 B	20,92%	Enough

Source: Pasuruan Regency Central Statistic Agency 2018 to 2023

Based on table 1, it can be seen that in 2018 to 2019, before the pandemic broke out, the level of decentralization in Pasuruan Regency was low with a percentage gain below 20%. Then during the Covid-19 pandemic it actually increased with a percentage of 21.76% in 2020 but decreased in 2021 to 21.47%. Despite the decline in the previous year, in 2022 there will be a significant increase with sufficient centered performance following the entry of a new normal period. In 2023, it will experience the highest increase of 22.55%. And on average, the decentralization of Pasuruan Regency during 2018 to 2023 achieved adequate performance with a percentage gain of 20.92%. This

shows that Pasuruan Regency is quite capable of contributing to regional revenue funding.

Expenditure Growth Ratio Analysis

Table 2. The Expenditure Growth Ratio of Pasuruan Regency from 2018 to 2023

Year	Expenditure (Billion)	Revenue Growth (%)	Expenditure Growth (%)	Performance
2017	3.333.797.837.559,31 B	-	-	-
2018	3.140.572.335.212,71 B	10,0%	-5,79 %	Good
2019	3.244.331.996.857,72 B	5,67%	3,24%	Good
2020	3.238.383.232.383,24 B	3,12%	1,20%	Good
2021	3.273.759.884.343,00 B	7,60%	1,09%	Good
2022	3.450.040.247.082,16 B	0,37%	5,38%	Not Good
2023	3.991.431.925.884,00 B	-98,9	15,6%	Not Good
Mean	3.381.759.637.046,02 B	2,8%	3,45%	Not Good

Source: Pasuruan Regency Central Statistic Agency 2018 to 2023

From the table, the examination of expenditure growth in Pasuruan District covering the years 2018 to 2021 can be interpreted as showing strong growth from 2018 to 2022 and 2023, juxtaposed with the decline observed in the period 2022 to 2023. This phenomenon reflects variations in the fiscal base, economic conditions and spending priorities of the region in the period 2018 to 2021 (characterized by positive growth). During this interval, the level of regional spending is expected to show a consistent or significant increase. Various factors contribute to the encouraging growth of spending in Pasuruan Regency in this era including increased regional income and increased investment in infrastructure. In contrast, the period 2022 to 2023 (characterized by a downward flow) shows that the region's expenditure, which previously showed positive growth, is expected to decline in 2023. This reduction can be attributed to several determinants, including the aftermath of the COVID-19 pandemic, reduction in transfer funding from the central government, and redefinition of spending policies and priorities.

The reduced average expenditure growth rate can be attributed to the higher expenditure growth rate compared to the income growth rate. This is indicated by an expenditure growth rate of 3.45% coupled with an income growth rate of 2.8%. It can be concluded that the capacity to stabilize growth is assessed from one period to the next. The growth dynamics in Pasuruan Regency are not conducive to achieving a balance between local expenditure growth and revenue growth.

Operating Expenditure Analysis to Total Expenditure

Table 3. The Operational Expenditure to Total Expenditure Ratio of Pasuruan Regency from 2018 to 2023

Year	Operational Expenditure (Billion)	Total Expenditure (Billion)	Operating Expenditure to Total Expenditure	Performance
2018	2.122.361.640 B	3.376.868.296 B	62,84	Good
2019	2.135.455.529 B	3.698.739.777 B	57,73	Good
2020	2.070.414.873 B	3.238.383.232 B	63,93	Good

Year	Operational Expenditure (Billion)	Total Expenditure (Billion)	Operating Expenditure to Total Expenditure	Performance
2021	2.228.563.489 B	3.273.759.884 B	68,07	Good
2022	2.343.945.791 B	3.450.040.247 B	67,93	Good
2023	2.674.895.676 B	3.733.513.061 B	71,64	Good
Mean	2.262.606.166,33 B	3.461.884.082,83 B	65,36	Good

Source: Pasuruan Regency Central Statistic Agency 2018 to 2023

Based on the schedule above, it can be seen that the ratio of operational expenditure to capital expenditure in Pasuruan Regency is at its lowest point with a percentage of less than 90% from before the COVID-19 pandemic. However, during the pandemic there were increases and decreases, from 57.73% in 2019 to 63.93% in 2020 and increasing to 68.07% in 2021. The ratio of operational expenditure to capital expenditure in Pasuruan Regency actually increased by around 14% from 57.73% to 71.64%.

Capital Expenditure Analysis to Total Expenditure

Table 4. The Capital Expenditure to Total Expenditure Ratio of Pasuruan Regency 2018 to 2023

Year	Capital Expenditure (Billion)	Total Expenditure (Billion)	Operating Expenditure to Total Expenditure (%)	Performance
2018	506.488.852 B	3.376.868.296 B	14,99	Good
2019	585.656.323 B	3.698.739.777 B	15,83	Good
2020	352.127.050 B	3.238.383.232 B	10,87	Good
2021	376.073.722 B	3.273.759.884 B	11,48	Good
2022	476.867.550 B	3.450.040.247 B	13,82	Good
2023	437.513.356 B	3.733.513.061 B	11,71	Good
Mean	455.787.808,83 B	3.461.884.082,83 B	13,16	Good

Source: Pasuruan Regency Central Statistic Agency 2018 to 2023

Based on table 4, before the COVID-19 pandemic until last year, the ratio of capital expenditure in Pasuruan Regency fluctuated, increased and decreased. In 2018, the ratio was 14.99%, then increased to 15.83% in 2019. However, at the start of the COVID-19 pandemic, the ratio dropped drastically from 15.83% in 2019 to 11.48% in 2021. In the new normal period, the capital expenditure ratio started to increase again to 13.82% in 2022, but then fell to 11.71% in 2023. Overall, the ratio of capital expenditure to total expenditure in Pasuruan Regency over the period 2018 to 2023 has shown good performance, although there was a decline in 2023. This is shown by the average value of the ratio of capital expenditure to total expenditure of 13.16%, which exceeds 5% in the past 6 years. This means that the capital expenditure performance of Pasuruan Regency is still in the process of investing for regional development.

Direct and Indirect Expenditure Analysis to Total Expenditure

Tabel 5. The Direct and Indirect Expenditure Ratio of Pasuruan Regency 2018 to 2023

Year	Direct Expenditure (Billion)	Indirect Expenditure (Billion)	Total (Billion)	Direct Expenditure Ratio (%)	Indirect Expenditure Ratio (%)	Performance
2018	1.515.981.564 B	1.860.886.733 B	3.376.868.296 B	44,89%	55,10%	Not Good
2019	1.688.147.594 B	2.010.592.183 B	3.698.739.777 B	45,64%	54,35%	Not Good
2020	1.264.147.797 B	1.974.235.436 B	3.238.383.232 B	39,03%	60,96%	Not Good
2021	1.307.126.968 B	1.966.632.916 B	3.273.759.884 B	39,92%	60,07%	Not Good
2022	1.493.376.798 B	1.956.663.449 B	3.450.040.247 B	43,28%	56,71%	Not Good
2023	1.656.548.427 B	2.076.964.635 B	3.733.513.061 B	44,36%	55,63%	Not Good
Mean	1.487.554.856,5 B	1.974.329.225,33 B	3.461.884.082,83 B	42,96%	57,03%	Not Good

Source: Pasuruan Regency Central Statistic Agency 2018 to 2023

Based on the above table, it can be concluded that the ratio of direct shopping and indirect shopping to total shopping in the Pasuruan Regency area shows poor performance in the 2018 to 2023 period. The decision obtained shows that the value of the ratio of direct expenditure generated is smaller, namely an average of 42.96% compared to the value of the ratio of indirect expenditure, namely an average of 57.03%. So it can be concluded that the expenditure in Pasuruan Regency is more dominant and indirectly experienced an increase in expenditure over the past 4 years.

Tax Effectiveness Ratio Analysis

Table 6. The Tax Effectiveness Ratio of Pasuruan Regency 2018 to 2023

Year	Provincial Taxes		Tax Effectiveness Ratio (%)	Performance
	Budget (Billion)	Realization (Billion)		
2018	349.380.000.000	357.260.000.000	102,25%	Very Impressive
2019	399.620.000.000	364.180.000.000	91,13%	Quite Impressive
2020	445.070.000.000	360.890.000.000	81,08%	Less Impressive
2021	420.510.000.000	393.590.000.000	93,59%	Quite Impressive
2022	425.140.000.000	425.520.000.000	100,08%	Very Impressive
2023	430.440.000.000	503.300.000.000	116,92%	Very Impressive
Mean			97,50%	Quite Impressive

Source: Ministry of Finance, Directorate of Head of Financial Balance of Pasuruan Regency 2018 to 2023

Based on the above estimates, it shows that the value of tax effectiveness in the Pasuruan Regency area in 2018 has a very effective performance with a performance level of 102.25%. However, in the following years, namely 2019 to 2021, performance has decreased due to the pandemic, so that performance has decreased, even in 2020 the decline was very significant at 81.08% with less effective performance. However, in 2022 and 2023 the tax effectiveness of Pasuruan Regency will experience a significant increase compared to 2018 to 2020. This means that overall the tax effectiveness performance of Pasuruan Regency is quite effective.

CONCLUSIONS

It can be concluded that the Expenditure Growth Ratio, Decentralization Rate, and Operating Expenditure Ratio to Total Expenditure show good results. From 2018 to 2023, the decentralization ratio remains in the sufficient category with an average of 20.92%, which shows that the contribution of regional Original Revenue still needs to be increased. The expenditure growth ratio shows good results because expenditure growth is lower than financing growth until 2021. Two other ratios namely the Ratio of Capital Expenditure to Total Expenditure and the Ratio of Direct Expenditure to Indirect Expenditure still need to be improved. The ratio of Capital Expenditure ranges between 8.14% and 13.92%, with an average of 10.91% which still exceeds 5%, but its contribution needs to be increased for sustainable regional development. This is because the ratio of direct expenditure is lower in the period 2018 to 2023 than the ratio of indirect expenditure, which averages 42.96% and 57.03% respectively. Overall, the financial performance of Pasuruan Regency for the period 2018 to 2023 should continue to be improved especially by increasing Local Owned Revenue, direct expenditure and capital expenditure as well as adjusting it to the impact of the Covid-19 pandemic to increase spending for the welfare of the Pasuruan community in the future.

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