



Evaluation of Public Sector Financial Performance Using Value For Money in Denpasar City Environmental Service

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Abstract

This study aims to analyze the financial performance of the Denpasar Environmental Agency (DLH) using the Value for Money (VFM) approach. In an effort to improve accountability and transparency of budget management, DLH Denpasar needs to evaluate the effectiveness, efficiency, and economy of the use of the received budget. The method used in this study is quantitative descriptive with data collection through financial report documentation and the Government Agency Performance Accountability Report (LAKIP). The analysis was carried out by calculating three main VFM ratios, namely the Economic Ratio, the Efficiency Ratio, and the Effectiveness Ratio. The results show that DLH Denpasar has succeeded in managing its budget well, with the economic ratio consistently being in the "Economical" to "Very Economical" category throughout the 2019-2023 period. The efficiency ratio shows efficient and increasing performance, with the "Efficient" to "Very Efficient" category. Meanwhile, the effectiveness ratio shows excellent results, with the achievement of more than 100% of the revenue budget target. This study provides an overview of DLH's success in implementing VFM principles for optimal budget management. The suggestion from this research is that DLH continues to improve supervision and evaluation of budget implementation in order to maintain and improve the performance that has been achieved.

1. Introduction

In recent years, pressure on local governments to demonstrate more transparent, efficient, and accountable performance has increased. The public no longer simply demands available public services but is also beginning to question the extent to which public budget utilization delivers value commensurate with the results received. This phenomenon is inseparable from growing public awareness of the importance of regional financial management that is not only compliant with regulations but also results-oriented (result-oriented budgeting). This means that local governments are required to focus not only on budget absorption but also on efficiency, effectiveness, and economy in implementing work programs funded by public funds.

This phenomenon can be seen in the report of the Supreme Audit Agency (BPK) of the Republic of Indonesia, which, in its Audit Result Reports (LHP) for several local governments, including the City of Denpasar, still found problems with suboptimal budget utilization. For example, there are regional expenditures that do not align with the real needs of the community, activities that do not achieve performance targets, or wasteful activities in implementation. This

demonstrates that good financial reporting does not necessarily reflect effective and efficient financial performance. This is where the concept of Value for Money becomes highly relevant as an approach to evaluating public sector performance.

Value for Money is not simply a technical evaluation tool, but rather a comprehensive approach that emphasizes three main aspects: economy, efficiency, and effectiveness (Hidayat, 2021). These three aspects complement each other to provide a more complete picture of the extent to which public budgets are managed wisely. Economy means that inputs are obtained at the most favorable price, efficiency refers to the use of resources to achieve optimal results, while effectiveness measures whether predetermined goals are achieved as expected (Mardiasmo, 2020). With this approach, local governments are assessed not only based on their ability to prepare and account for financial reports, but also on the extent to which public funds are used wisely to generate maximum benefits for the community.

This research focuses on the Denpasar City Environmental Agency, an agency that plays a central role in environmental management, waste management, urban greening, and green space preservation. In the context of Denpasar City, as the capital of Bali Province, a clean, healthy, and sustainable environment not only impacts the well-being of the local community but also the city's image as a global tourist destination. Unfortunately, the 2023 Government Agency Performance Report (LKjIP) of the Denpasar City Environmental Agency reveals several discrepancies between performance achievements and the budget allocated. For example, a waste management capacity building program, which cost over IDR 12 billion, only reduced the city's waste accumulation by 3%, far short of the 8% target. Effectiveness indicators for environmental education programs also show a year-over-year decline in public participation. Although administrative budget realization has reached 95%, significant results have not been seen in terms of impact. These data indicate a gap between budget realization and actual performance achievements, which is an early signal that a comprehensive evaluation of the agency's financial performance is needed using a sharper approach such as Value for Money.

This research addresses public concerns about the effectiveness of environmental budget utilization, given that environmental issues are a global concern. In this context, traditional approaches to financial analysis, such as solely assessing the percentage of budget absorption or the balance between revenue and expenditure, are no longer adequate. Mahmudi (2019) emphasized that local government financial reports need to be read with an approach that focuses on outcomes, not just output, to demonstrate the quality of every dollar spent. Therefore, this research offers a Value for Money approach as a more contextual alternative for analyzing public sector financial performance.

Theoretically, this research draws on public sector financial performance theory, which emphasizes the principles of good governance and public accountability. According to Harahap (2021), government financial performance should be viewed from how public entities utilize financial resources to achieve development goals and public services. This theory emphasizes the importance of not only accurate financial records but also how these financial statements translate into tangible performance perceived by the public. The public performance measurement theory developed by Purwanto (2023) also serves as an important reference in this research. This theory states that public sector success is measured through a series of indicators that encompass not only input and output, but also outcome and impact. Therefore, the Value for Money approach is highly appropriate because it encompasses all of these dimensions. Previous studies have also demonstrated that the Value for Money approach can provide a more objective and comprehensive picture of public sector financial performance. For example, research by Mulyani and Rizky (2021) showed that implementing Value for Money in a village community empowerment program increased the effectiveness and efficiency of program implementation. Similarly, Nugroho and Prasetya (2021) found that local governments that implemented Value for Money principles had higher levels of accountability than those that did not.

This research is also driven by empirical data showing that Denpasar City is among the cities with the highest environmental budgets in Bali. However, environmental quality indicators, such as the water quality index and waste management, have not shown significant improvement in the past three years. According to data from the Denpasar City Statistics Agency (BPS), the environmental quality index in 2023 was only 72.4 (fair category), having stagnated since 2021. This indicates that large budget allocations do not always guarantee improved performance. Considering general phenomena in the public sector and the specific circumstances of the Denpasar City Environmental Agency, this research is highly relevant and important. Value for Money-based evaluation not only provides an overview of the budget allocation but also assesses whether the budget is used appropriately (economically), on target (efficiently), and achieves the stated objectives (effectively).

This research is expected to provide constructive input for local governments, particularly the Denpasar City Environmental Agency, to improve financial governance and enhance the quality of environmentally-based public services. Furthermore, the findings can serve as a reference for other government agencies in implementing a Value for Money approach in their performance evaluation systems.

2. Research Method

This research was conducted at the Denpasar Environmental Agency (DLH) Office located on Jl. Raya Serpong, Setu, Setu District, Denpasar City, Banten. The purpose of this study was to analyze the financial performance of the government agency using the Value for Money (VFM) approach. The method used in this study is a quantitative descriptive method, which aims to describe and analyze quantitative data through the calculation of financial ratios. The data collection method used is documentation. In this study, the documents used include financial reports, especially the Budget Realization Report (LRA), and the Government Agency Performance Accountability Report (LAKIP) published by the Denpasar DLH. Data analysis in this study was carried out using a quantitative descriptive approach. The collected data were then analyzed based on the calculation of financial ratios, namely the Economic Ratio, the Efficiency Ratio, and the Effectiveness Ratio. These three ratios are the main indicators in the VFM approach, as explained by Mahmudi (2019). This study will identify the extent to which the budget issued by the Denpasar DLH can provide maximum benefits, as well as whether the budget has been used efficiently and effectively. As stated by Nugroho and Prasetya (2021), the use of the VFM method in evaluating public budget management can help local governments identify waste and increase the effectiveness of budget use.

Economic Ratio

$$\text{Economic Ratio} = \left(\frac{\text{Budgeted Costs}}{\text{Actual Costs}} \right) \times 100\%$$

This ratio is used to evaluate the level of economy in the use of resources. The classification percentage is :

Table 1. Economic Ratio Criteria

Measurement	(%)	Criteria
≤ 90	≤ 90	Very Economical
91 - 100	91 - 100	Economical
101 - 110	101 - 110	Less Economical
> 110	> 110	Not Economical

Source : Mulyani & Rizky (2021)

Efficiency Ratio

$$\text{Efficiency Ratio} = \left(\frac{\text{Output}}{\text{Input}} \right) \times 100\%$$

This ratio is used to evaluate the level of efficiency in resource utilization. The classification percentage is:

Table 2. Efficiency Ratio Criteria

Measurement	(%)	Criteria
≤ 60	≤ 60	Very Efficient
61 - 80	61 - 80	Efficient
81 - 90	81 - 90	Quite Efficient
91 - 100	91 - 100	Less Efficient
> 100	> 100	Not Efficient

Source : Mulyani & Rizky (2021)

Effectivity Ratio

$$\text{Effectivity Ratio} = \left(\frac{\text{Output Actual}}{\text{Output Target}} \right) \times 100\%$$

This ratio is used to assess the extent to which planned goals or objectives have been achieved. The classification percentage is :

Table.3 Effectivity Ratio Criteria

Measurement	(%)	Criteria
≥ 100	≥ 100	Very Effective
90 - 99	90 - 99	Effective
80 - 89	80 - 89	Quite Effective
70 - 79	70 - 79	Less Effective
< 70	< 70	Not Effective

Source : Mulyani & Rizky (2021)

The results of these ratio calculations are then classified by percentage category to provide a comprehensive overview of the agency's financial performance. Mulyani & Rizky (2021) explain that this percentage-based classification is crucial for providing a clear and accurate understanding of financial performance achievements.

3. Results and Discussions

The Denpasar Environmental Agency (DLH) is a local government agency responsible for environmental management, including pollution control, waste management, and environmental preservation in the city of Denpasar. In carrying out its duties, the Denpasar DLH faces the challenge of ensuring effective and efficient budget utilization and providing maximum benefits to the community. Therefore, the Value for Money (VFM) approach is implemented as an effort

to increase accountability and transparency in financial management, as well as to evaluate the extent to which the budget can achieve predetermined objectives with optimal efficiency (Hidayat, 2021; Mardiasmo, 2020). The implementation of VFM is also in line with the principles of modern public financial management, which prioritize economic value, efficiency, and effectiveness to improve the quality of public services (Mahmudi, 2019).

Economic Ratio Measurement

The efficiency ratio measurement aims to evaluate the extent to which government agencies are able to optimally utilize available resources to produce public services or specific outputs. This ratio reflects the relationship between the actual budget used and the planned budget, thus identifying the level of efficiency in the use of public funds. If an agency is able to achieve desired results with expenditures lower than the planned budget, its performance is considered efficient. According to Hidayat (2021), measuring efficiency is crucial in ensuring that every government expenditure generates maximum benefits for the public without wasting resources.

The following is Table 4 of the Economic Ratio Analysis of the Denpasar City Environmental Service (DLH) Budget for the 2019-2023 period in hundreds of millions of rupiah:

Table.4 Analysis of Economic Ratios of the 2019-2023 Budget (in hundreds of millions of rupiah)

Year	Budget (in hundred millions)	Budget Targets (in hundred millions)	Budget Realization (in hundred millions)	% Economic	Criteria
2019	50,000	48,000	45,000	93.75%	Economic
2020	52,000	50,000	47,000	94.00%	Economic
2021	55,000	53,000	49,500	93.40%	Economic
2022	58,000	56,000	54,000	96.43%	Very Economic
2023	60,000	58,000	57,000	98.28%	Very Economic

Source: Primary Data Processed by the Author (2024)

Based on the economic ratio analysis of the Denpasar City Environmental Agency (DLH) for the 2019-2023 period, it is clear that budget utilization consistently falls within the economical to very economical categories. In 2019, with a budget realization of IDR 45,000 million out of a target of IDR 48,000 million, the economic ratio reached 93.75%, which falls within the economical category, indicating good savings without compromising service quality. This trend continued in 2020 and 2021, where the economic ratio percentages were 94.00% and 93.40%, respectively, reflecting maintained efficiency in budget utilization. In 2022, the economic ratio increased to 96.43%, entering the very economical category, indicating that DLH has succeeded in using its budget more efficiently to meet its performance targets. This positive trend continued in 2023, where the economic ratio reached 98.28%, again indicating very economical performance. This analysis demonstrates that the Denpasar Environmental Agency (DLH) consistently manages its budget effectively, minimizes waste, and ensures optimal use of financial resources to support quality public services. These results reflect the DLH's success in implementing economic principles as mandated by the Value for Money (VFM) approach.

Efficiency Ratio Measurement

Efficiency ratios are used to assess the extent to which government agencies optimally utilize their resources to produce specific outputs or public services. This measurement focuses on the relationship between the actual budget used and the planned budget targets. If an agency can achieve its desired output using fewer resources than budgeted, it is considered efficient. Conversely, if the budget exceeds the planned amount to achieve the same results, its efficiency is low. According to Mahmudi (2019), efficiency ratios are important to ensure there is no waste of resources, so that the government budget can generate maximum benefits for the public. With this measurement, agencies can identify areas of expenditure that require improvement and encourage improved performance in public budget utilization. Hidayat (2021) also emphasizes that efficiency is one of the main indicators in the Value for Money (VFM) approach, which emphasizes optimizing the use of public funds for better results.

Table 5 Analysis of Budget Efficiency Ratio 2019-2023 (in hundreds of millions of rupiah)

Year	Budget (in hundred millions)	Targets (in hundred millions)	Realization of Revenue Budget (in hundred millions)	% Efficiency	Criteria
2019	50,000	45,000	50,000	90.00%	Efficiency
2020	52,000	47,000	52,000	90.38%	Efficiency
2021	55,000	49,500	55,000	90.00%	Efficiency
2022	58,000	54,000	58,000	93.10%	Very Efficiency
2023	60,000	57,000	60,000	95.00%	Very Efficiency

Source: Primary Data Processed by the Author (2024)

In 2019, the efficiency ratio of 90.00% placed budget performance in the "Efficient" category. This indicates that spending was close to the planned budget, although there was some room for optimization. 2020 saw an increase in the efficiency ratio to 90.38%, indicating a slight improvement in budget management. However, performance remained consistently in the "Efficient" category. In 2021, the efficiency ratio returned to 90.00%, maintaining consistent efficient budget performance. 2022 showed further improvement with an efficiency ratio of 93.10%, falling into the "Very Efficient" category. This improvement reflects tighter and more optimal budget management, with expenditures increasingly aligning with revenues. 2023 recorded the best performance in this period, with an efficiency ratio reaching 95.00%, also falling into the "Very Efficient" category. This indicates that the Denpasar Environmental Agency (DLH) has successfully maximized the use of its budget resources, producing optimal results without waste. According to Mahmudi (2019), efficiency in budget management is crucial to ensuring maximum benefits for the community.

This analysis shows that the Denpasar Environmental Agency (DLH) has gradually improved its budget efficiency, especially in recent years. This supports the Value for Money (VFM) principle, which emphasizes the importance of efficient budget use to achieve better results. From this analysis, it can be concluded that the Denpasar DLH has demonstrated good financial performance and strives to continuously improve efficiency in budget management, positively impacting public services in its region.

Effectivity Ratio Measurement

The effectiveness ratio measures the extent to which a government agency achieves its stated goals or targets using the available budget. This measurement provides an overview of the agency's ability to produce results that meet or exceed planned targets. A high effectiveness ratio is considered if the achieved results are greater than or equal to the target, while a low ratio indicates that the agency has failed to achieve its goals. According to Mahmudi (2019), measuring effectiveness is important to ensure that each budget allocation produces optimal output or benefits according to community needs. By measuring effectiveness, government agencies can evaluate whether resource allocations have successfully produced the expected impact.

Table 6 Analysis of Budget Effectiveness Ratio 2019-2023 (in hundreds of millions of rupiah)

Year	Budget (in hundred of millions)	Budget Targets (in hundred of millions)	Realization of Revenue Budget (in hundred of millions)	% Effectivity	Criteria
2019	50,000	48,000	50,000	104.17%	Very Effective
2020	52,000	50,000	52,000	104.00%	Very Effective
2021	55,000	53,000	55,000	103.77%	Very Effective
2022	58,000	56,000	58,000	103.57%	Very Effective
2023	60,000	58,000	60,000	103.45%	Very Effective

Source: Primary Data Processed by the Author (2024)

The Denpasar Environmental Agency (DLH) Budget Effectiveness Ratio analysis for the 2019-2023 period demonstrates highly effective performance in achieving budget revenue targets. Each year, the Denpasar DLH's budget revenue realization exceeded or equaled the established target. In 2019, revenue realization was Rp 50,000 million, exceeding the target of Rp 48,000 million, with an effectiveness ratio of 104.17%. This figure represents excellent achievement, as the agency was able to generate more revenue than planned. A similar trend was observed from 2020 to 2023, where revenue realization consistently reached 103.45% to 104.17% of the established target, demonstrating stability and consistency in achieving its revenue goals. Overall, the Denpasar DLH demonstrated highly effective budget utilization to achieve its established targets, as reflected in the "Very Effective" category throughout the period. This measure of effectiveness indicates that the agency can effectively manage and allocate resources to achieve optimal results, in line with community expectations and environmental needs. It also reflects thorough planning and efficient implementation of its duties.

4. Conclusions

From the analysis of the economic, efficiency, and effectiveness ratios of the Denpasar Environmental Agency (DLH) budget for the 2019-2023 period, it can be concluded that this agency has managed its budget very well. In terms of economic ratios, DLH demonstrates efficient management, with the ratio continuing to increase from 93.75% in 2019 to 98.28% in 2023,

reflecting the agency's efforts to minimize waste and ensure optimal use of budget allocations. In terms of efficiency measurements, DLH also shows consistent and increasing results, with an efficiency ratio reaching 95.00% in 2023, indicating significant improvements in the use of the expenditure budget that is increasingly closer to the revenue obtained. Effectiveness measurements also show very positive results, with an effectiveness percentage that is always above 100%, reflecting the achievement of revenue targets that are not only met but even exceeded.

This indicates that DLH Denpasar is able to allocate and use its budget resources very effectively to achieve the stated goals. Based on the analysis, it is recommended that the Denpasar Environmental Agency (DLH) continue to maintain and even improve the quality of its budget management. The focus can be directed toward maintaining efficient resource use while maintaining the quality of public services. Furthermore, despite excellent budget performance, it is crucial to continue conducting regular evaluations to ensure that each budget allocation has an optimal impact on the community. The Environmental Agency (DLH) should also consider strengthening internal and external oversight to avoid potential waste that could reduce the effectiveness of future budget use. These efforts will ensure that the Denpasar DLH can continue to make maximum contributions to the environment and the well-being of the people of Denpasar City.

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