

Analysis of Financial Performance of The Regional Government of Lumajang District for the 2020-2022 Budget Year

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Abstract

This research intends to evaluate the financial performance of the Lumajang Regency Regional Government for the 2020-2022 period. The quantitative research approach uses secondary data from the 2020-2022 Lumajang Regency APBD. The financial performance of the Lumajang Regency Regional Government in terms of the average figure for the Degree of Fiscal Decentralization Ratio of 15.18% is in the Low category, the Regional Financial Independence Ratio of 17.91% is in the Very Low category with an Instructive relationship pattern, the Financial Dependency Ratio The regional level is 84.82% which is categorized as high level of dependency, the PAD Effectiveness Ratio is 105.64% with the categorization of Very Effective, the Regional Financial Efficiency Ratio is 98.96% which is classified as Less Efficient, and the Capital Expenditure Ratio is still 10.99%. Meets standards that are in the range of 5-20%. Based on these findings, it can be concluded that overall, the financial performance of the Lumajang Regency Regional Government has not yet reached optimality. However, the calculation results show an increase in financial performance every year.

Keywords: Performance Analysis, Ratio Analysis, Regional Government, Lumajang Regency

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1. Introduction

Regional governments in Indonesia are now entering a new phase of government in the form of regional autonomy government through greater regional government authority and responsibility. Regional governments are given the freedom by regional autonomy to make decisions well and transparently and manage their resources in accordance with regional

priorities, interests, and potential. A significant consequence of implementing regional autonomy is the need to implement a decentralized system that is efficient, effective, transparent, and accountable to the community. The regional rights, obligations, and authorities are regulated in Law Number 23 of 2014 concerning Regional Government, with one aspect involving the financial sector.

The implication of regional autonomy is the creation of the principle of fiscal decentralization, where financial management authority is divided into Regional Government authority and Central Government authority. This is reflected in Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, which regulates the implementation of financial cooperation between the two parties. The implementation of this financial relationship aims to optimize the extraction of national resources with efficiency, creating transparent, accountable, and fair relationships, with the main focus being to improve community welfare and equal distribution of public services.

Law Number 1 of 2022 becomes the legal norm for implementing central and regional financial administration. The hope is that regional governments with autonomy can use these regulations to guide regional finances. The regulation stipulates that the Balancing Fund, which originates from the APBN, is recognized as a component of Regional Revenue to support the implementation of decentralization at the regional level. This Balancing Fund, in the form of transfer funds, is expected to decrease in line with increasing regional independence. However, the provision of transfer funds still depends on the conditions of each region in Indonesia, especially the regional capacity to obtain Regional Original Income (PAD). However, in reality, the current financial dependence of regional governments on the central government, especially regarding transfer funds, is still high. Referring to data from the Fiscal Policy Agency (BKF) of the Ministry of Finance, for two decades (2001-2020), transfer funds sourced from the APBN were the main contributor to Regional Revenue and Expenditure Budget (APBD) revenues, reaching an average of around 66.81 % of total regional income (PAD) (BKF, 2021).

According to Mardiasmo (2018), regional financial management and regional budget planning are crucial to implementing decentralization and regional autonomy. Management is needed to monitor and regulate regulations related to regional finances effectively, efficiently, economically, accountable, and transparently. Regional governments can demonstrate their ability to manage regional finances through the APBD as an indicator of their ability to fund governance, development tasks, and public services to the community. Regional financial management includes various activities, from planning and implementation to financial supervision and preparing accountability reports. Managing regional finances needs to be disciplined and in compliance with current regulations while prioritizing the principles of justice, compliance, and providing optimal benefits for the community (Alfian & Digdowiseiso, 2023).

In order to achieve the targets of regional autonomy and fiscal decentralization, it is important to evaluate regional financial performance. This is done as a step to measure the extent of effectiveness and efficiency in regional financial management. Evaluation of regional financial performance can be effectively carried out by analysing financial ratios from the APBD, which have been determined and implemented as a method of measuring the financial

capacity of a region. Calculating this ratio provides an overview of Regional Government performance, which ultimately contributes to management control in public organisations.

Several studies have been carried out regarding regional financial performance analysis, including Digdowiseiso et al. (2023) on the financial performance of Cilacap Regency for the 2018-2022 period, shows that the financial performance of the Regional Government of Cilacap Regency has not reached the optimal level and needs to be improved further. Based on ratio measurements, the financial performance of the Cilacap Regency Government has very low financial capacity, namely with an instructive and consultative relationship pattern. Meanwhile, the average effectiveness ratio is 105.94%, which is very effective. The efficiency ratio shows a decline, namely at an average of below 100% (2018-2020) and above 100% (2021-2022), which shows that it is less efficient and inefficient. The decentralisation degree ratio is classified as poor. Furthermore, the proportion of spending on indirect activities tends to get a higher priority than direct spending in total spending. Other research conducted by Digdowiseiso & Zarkasyi (2023) regarding the regional financial performance of Bulukumba Regency in 2016-2020 shows that the regional financial performance is still not optimal. This research shows that the Degree of Fiscal Decentralization of PAD has an average figure of 12.50%, categorised as insufficient. The Independence Ratio, with an average figure of 15.23%, is included in the very low category. This affects the Dependency Ratio with a figure ranging from 82.89%, which is relatively high. The PAD Effectiveness Ratio, with an average figure of 73.32%, shows that regional income is still less effective.

Other research conducted by Diliaana (2018) focused on regional financial performance in Lumajang Regency from 2012-2016. This research shows that the Independence Ratio is instructive, while the Lumajang Regency PAD Effectiveness Ratio is always effective, with a percentage value exceeding 100%. Meanwhile, the efficiency ratio obtained is below 100%, indicating that the financial performance capability of the Lumajang Regency Regional Government is improving with a lower efficiency ratio. The Harmony Ratio shows the dominance of Lumajang Regency Regional Government funds for operational expenditure. Meanwhile, the growth ratio in Lumajang Regency shows fluctuations due to the increase in local original income (PAD) used for regional development. Its growth consistently cannot be maintained, and it tends to decline.

Lumajang Regency is an area rich in abundant natural resources and charm, a potential field for developing natural tourist destinations. Lumajang Regency has tourism potential and sources of Regional Original Income (PAD) from various sectors, such as agriculture, forestry, fisheries, animal husbandry, and mining. In the era of decentralisation, Lumajang Regency needs to carry out financial activities optimally and innovate so that its government can be independent in managing and improving regional financial performance.

The author is interested in researching "Financial Performance Analysis of the Regional Government of Lumajang Regency for the 2020-2022 Budget Year" by examining the background, facts, and studies above.

2. Research Methods

This research intends to evaluate the financial performance of the Lumajang Regency Regional Government for 2020-2022 using a quantitative descriptive research approach. The analysis utilised secondary data, namely Regional Revenue and Expenditure Budget (APBD) data from 2020 to 2022 in Lumajang Regency. This data was obtained from the Directorate

General of Financial Balance (DJPK) of the Ministry of Finance, published on the website www.djpk.kemenkeu.go.id.

This quantitative descriptive research method aims to explain the situation being investigated, reinforced by a literature study to improve the researcher's analysis in conclusion. Research findings were obtained after calculating various indicators of the research variables, which the author explained in writing.

The assessment of regional financial performance in Lumajang Regency is carried out using the Regional Financial Performance Assessment Ratio which includes several ratios, namely: (1) Degree of Fiscal Decentralization Ratio, (2) Regional Financial Independence Ratio, (3) Regional Financial Dependency Ratio, (4) Effectiveness Ratio PAD, (5) Regional Financial Efficiency Ratio, and (6) Capital Expenditure Ratio, with the following explanation:

2.1. Fiscal Decentralization Degree Ratio

According to Mahmudi (2019), the Fiscal Decentralization Degree Ratio (RDDE) can be defined as a measure used to assess the extent to which a region's finances can be independent in generating Regional Original Income (PAD) compared to overall regional income in a particular year. RDDE describes the proportion of PAD contribution to overall regional income, reflecting the extent to which a local government depends on its local sources of income. In this context, PAD includes various sources of local income generated by regional governments, including but not limited to regional taxes, regional levies, proceeds from the management of separated regional assets, and other legitimate Regional Original Income. Meanwhile, regional income includes PAD, central government transfers, and other legitimate regional income. The increase in RDDE indicates an increase in the financial capacity of local governments to generate revenue independently, reducing dependence on transfers from the central government. The RDDE formula and the RDDE interval scale range can be explained as follows:

$$\text{Fiscal Decentralization Degree Ratio} = \frac{\text{Realisasi PAD}}{\text{Realisasi Pendapatan Daerah}} \times 100\%$$

Table 1. Fiscal Decentralization Degree Ratio Interval Scale (RDDE)

Fiscal Decentralization Ratio (%)	Category
0 - 10	Very less
10 - 20	Not enough
20 - 30	Currently
30 - 40	Enough
40 - 50	Good
> 50	Very good

Source: Mahmudi (2019)

2.2. Regional Financial Independence Ratio

According to Mahmudi (2019), the Regional Financial Independence Ratio (RKKD) indicates the extent to which a region can finance activities related to the region, including government, development, and community services. This indicator assesses the use of income obtained from taxes and levies from the community. This ratio compares the realisation of regional original income (PAD) received with the realisation of transfer income in a certain period. The higher the Financial Independence Ratio value, the greater the level of independence of the region. Apart from that, the RKKD also reflects the level of participation of local communities in regional development. The formula and interval scale range of the RKKD can be explained as follows:

$$\text{Regional Financial Independence Ratio} = \frac{\text{Realisasi PAD}}{\text{Realisasi Pendapatan Transfer}} \times 100\%$$

Table 2. Regional Financial Independence Ratio Interval Scale

Regional Capabilities	Regional Financial Independence Ratio (%)	Relationship Patterns
Very low	0 – 25	Instructive
Low	25 – 50	Consultative
Currently	50 – 75	Participative
Tall	75 – 100	Delegative

Source: Mahmudi (2019)

2.3. Regional Financial Dependency Ratio

According to Mahmudi (2019), the Regional Financial Dependency Ratio can be interpreted as an indicator that reflects the extent to which transfer income realised in a particular year influences the total realisation of regional income. An increase in this ratio indicates an increase in regional government dependence on transfer funding assistance provided by the central government. With a determined formula, this ratio shows how much regions rely on central funds. The formula and interval scale range for the Regional Financial Dependency Ratio can be explained as follows:

$$\text{Regional Financial Dependency Ratio} = \frac{\text{Realisasi Pendapatan Transfer}}{\text{Realisasi Pendapatan Daerah}} \times 100\%$$

Table 3. Regional Financial Dependency Ratio Interval Scale

Regional Financial Dependency Ratio (%)	Category
0 – 25	Very low
25 – 50	Low
50 – 75	Currently
75 – 100	Tall

Source: UGM Faculty of Social and Political Sciences Research Team (1991)

2.4. Regional Original Income Effectiveness Ratio

The Effectiveness Ratio of Regional Original Income (PAD), according to Mahmudi (2019), refers to the indicators used to assess the capacity of regional governments to manage Original Regional Income (PAD) revenues to achieve predetermined targets. Calculating this ratio involves comparing the realised PAD revenue and the previously determined PAD budget or target. The level of conformity between the realisation of PAD and the target reflects the capacity of the local government to achieve the goals that have been set. The greater the ratio value achieved, the higher the level of effectiveness, while smaller results reflect a lower level of effectiveness. The PAD Effectiveness Ratio interval scale formula and range provide an overview of the extent to which the PAD revenue target has been achieved, with a larger value indicating higher effectiveness. The formula and interval scale range for the PAD Effectiveness Ratio can be explained as follows:

$$\text{PAD Effectiveness Ratio} = \frac{\text{Realisasi Penerimaan PAD}}{\text{Anggaran PAD}} \times 100\%$$

Table 4. PAD Effectiveness Ratio Interval Scale

PAD Effectiveness Ratio (%)	Category
< 75	Ineffective
75 – 89	Less effective
90 – 99	Effective enough
100	Effective
> 100	Very effective

Source: Mahmudi (2019)

2.5. Regional Financial Efficiency Ratio

The Regional Financial Efficiency Ratio (REKD) is an indicator that reflects the relationship between all costs used by regional governments to obtain income and the amount of income successfully realised by the region. An organisation, program, or activity is considered efficient if it can create targeted results using inputs as efficiently as possible or achieve optimal results with the provided inputs (Mahmudi, 2019). Local government financial performance efficiency is realised when the efficiency ratio is below 100%. The lower the REKD value, the more optimal the regional government's financial performance is in managing and generating income. This understanding is essential because it helps local governments evaluate and improve the efficiency of revenue collection activities. The formula and interval scale range of REKD can be explained as follows:

$$\text{Regional Financial Efficiency Ratio} = \frac{\text{Realisasi Belanja Daerah}}{\text{Realisasi Pendapatan Daerah}} \times 100\%$$

Table 5. Regional Financial Efficiency Ratio Interval Scale

Regional Financial Efficiency Ratio (%)	Category
> 100	Not efficient
90 – 100	Less efficient
80 – 90	Quite Efficient
60 – 80	Efficient
< 60	Very Efficient

Source: Minister of Home Affairs Decree No.690,900,327 of 1996

2.6. Capital Expenditure Ratio

The Capital Expenditure Ratio (RBM), according to Mahmudi (2019), is a measure that shows the proportion of total Capital Expenditure in a particular year to the total Regional Expenditure that occurred in the same year. Capital Expenditure is a special allocation contained in Regional Expenditures relating to the procurement of fixed or other assets, which can provide profits or benefits for more than one budget year. In RBM, no interval determines the success or failure of fund allocation. However, the realisation of Capital Expenditures in regional governments usually averages between 5% to 20% of total Regional Expenditures, according to Mahmudi (2019). The formula for RBM can be explained as follows:

$$\text{Capital Expenditure Ratio} = \frac{\text{Realisasi Belanja Modal}}{\text{Realisasi Belanja Daerah}} \times 100\%$$

3. Results and Discussion

Lumajang Regency is one of the regions located in the southern part of East Java Province; apart from that, Lumajang Regency is also part of the East Java Horseshoe region. With an area of 1,790.90 km², it covers 21 sub-districts, 198 villages, and 7 sub-districts. The population of Lumajang Regency reached 1,127,094 people, according to BPS Lumajang Regency data for 2021. Lumajang Regency has territorial boundaries with Malang Regency in the west, Jember Regency in the east, Probolinggo Regency in the north, and the Indonesian Ocean in the south.

The Lumajang Regency area has quite diverse characters. Its diverse characteristics are characterised by the agricultural, plantation, forest, fisheries, mining, and so on sectors. The diverse character of this region ultimately produces various products in these sectors, such as rice, fresh fruit, fisheries, sengon wood, sand mining, and so on. Apart from that, three volcanoes, namely Mount Bromo, Semeru, and Lemongan, which flank Lumajang Regency, make it a natural landscape that can potentially be developed as a natural tourist destination.

The Lumajang Regency Regional Government operates 51 local government entities as regulated in Lumajang Regency Regional Regulation Number 15 of 2016 regarding the Formation and Structure of Regional Apparatus. This structure includes the regional secretariat, DPRD secretariat, inspectorate, civil service police unit, 22 departments, 4 agencies, and 21 sub-districts. In addition, a technical implementation unit was formed that focused on managing some operational and technical activities and providing assistance with specific technical activities from the central regional apparatus. This reflects the complexity and diversity of functions integrated into the Lumajang Regency regional government structure.

Evaluation of regional government financial performance aims to measure the extent of accountability in managing financial resources according to their authority. As an autonomous entity, the regional government has the right to manage affairs in accordance with the provisions of Law Number 23 of 2014 concerning Regional Government. To implement this authority, regional financial management involves a series of activities that include managing income, expenditure, and financing to ensure efficient and effective management of financial resources owned by regional governments. Every allocation of funds issued is expected to contribute positively to the public interest, meet the community's needs according to their expectations, and be disclosed transparently for openness to the public (Halim & Kusufi, 2018).

The results of the calculation of the realisation of regional income and expenditure in Lumajang Regency are as follows:

Table 6. Lumajang Regency Regional Government APBD Realization Posture for 2020-2022

Description	2020	2021	2022
Regional Income	2,118,849,571,641	2,161,880,436,241	2,211,712,182,881
1. Regional Original Income	300.263.112.643	325,045,892,762	361.388.610.784
2. Central Government Transfer Revenue	1,498,576,597,474	1,532,991,615,714	1,641,053,659,256
3. Other Income	320,009,861,524	303,842,927,765	209.269.912.841
Regional Shopping	2,028,732,782,607	2,150,424,463,381	2,248,761,063,561
1. Employee Expenditures	741,631,927,441	801.049.030.923	773.991.369.810
2. Shopping for goods/services	555.859.126.090	554.443.294.315	569.495.778.688
3. Capital Expenditures	198.145.592.481	211.211.038.107	301.046.181.893
4. Other Shopping	533,096,136,595	583,721,100,036	604.227.733.169
Surplus/Deficit	90.116.789.034	11,455,972,860	(37,048,880,679)
Regional Financing	88.542.490.226	221.145.999.960	309.939.592.678
1. Regional Financing Receipts	88.542.490.226	221,645,999,960	366.346.998.721
2. Regional Financing Expenditures	-	500,000,000	56,407,406,043

Source: DJPK Ministry of Finance. Data processed (2023)

By referring to the structure of the realisation of the Regional Revenue and Expenditure Budget (APBD) listed in Table 6 above, the movement of financial realisation of the Lumajang Regency Regional Government in the 2020-2022 period is illustrated. During this period, it can be seen that the realisation of regional income shows a consistent increasing trend, reaching a peak in 2022 with IDR 2,211,712,182,881. Realised regional spending also shows an increasing trend in 2020-2022, reaching a peak in 2022 with total actual spending of IDR 2,248,761,063,561. A budget deficit was recorded in 2022, while a surplus was recorded in 2020 and 2021. The highest surplus was recorded in 2021, reaching IDR 11,455,972,860, and from a

financing perspective, the 2020-2022 period recorded a financing surplus, with 2022 recording the highest financing surplus of IDR 309,939,592,678.

3.1. Fiscal Decentralization Degree Ratio

Table 7. Calculation Results of the Degree of Fiscal Decentralization Ratio

Fiscal year	Realisation of PAD	Realisation of Regional Income	Ratio (%)	Fiscal Capability
2020	300.263.112.643	2,118,849,571,641	14,17	Not enough
2021	325,045,892,762	2,161,880,436,241	15.04	Not enough
2022	361.388.610.784	2,211,712,182,881	16.34	Not enough
Average Fiscal Decentralization Degree Ratio			15,18	Not enough

Source: DJPK Ministry of Finance. Data processed (2023)

By referring to the calculation results in Table 7 above, the Fiscal Decentralization Degree Ratio (RDDE) of Lumajang Regency shows an increasing trend in 2020-2022. In 2020, RDDE reached 14.17% in the low category. Then, there was an increase in 2021 to 15.04% in the insufficient category, and in 2022, there was a further increase to 16.34% still in the insufficient category. The RDDE analysis in Table 7 shows that during the 2020-2022 period, Lumajang Regency's RDDE was in the deficient category, where the average RDDE was 15.18%. However, this reflects the Lumajang Regency Regional Government's efforts to increase Original Regional Income (PAD) to increase regional income, even though RDDE is still classified as lacking. If explored further regarding the PAD component, Lumajang Regency has Original Regional Income (PAD) from 2020-2022, with the largest portion coming from other legitimate PAD sources, with an average of 63% of the total PAD. This situation reflects the seriousness and achievements the government has made in its efforts to optimise revenues in the sector. This finding aligns with the results of research by Digdowiseiso & Mataris (2022) regarding the analysis of the regional financial performance of Magelang Regency during the 2017-2019 period. This research notes a similar pattern: the average Degree of Fiscal Decentralization Ratio is 17.25%, included in the poor criteria. This reflects that the Regional Government is limited in increasing Regional Original Income (PAD).

3.2. Regional Financial Independence Ratio

Table 8. Results of Regional Financial Independence Ratio Calculation

Fiscal year	Realisation of PAD	Transfer Income	Ratio (%)	Relationship Patterns
2020	300.263.112.643	1,818,586,458,998	16.51	Instructive
2021	325,045,892,762	1,836,834,543,479	17.70	Instructive
2022	361.388.610.784	1,850,323,572,097	19.53	Instructive
Average Regional Financial Independence Ratio			17.91	Instructive

Source: DJPK Ministry of Finance. Data processed (2023)

If you review the calculation results listed in Table 8 above, the regional financial independence of Lumajang Regency shows an increase during the 2020-2021 period. In 2020, the RKKD was 16.51%, which increased to 17.70% in 2021, then increased again to 19.53% in 2022. Transfer income exceeded the Original Regional Income (PAD) realisation during this period. This situation indicates the high level of dependence of the Lumajang Regency Regional Government on transferring funds from the central government. This situation may continue if steps are not taken to increase targets and achieve Regional Original Income (PAD).

Lumajang Regency, when viewed from the Regional Financial Independence Ratio (RKKD), has an average ratio of 17.91%. This condition indicates that the regional financial capacity of Lumajang Regency has shallow criteria. This relationship pattern can be

interpreted as an instructive pattern, which shows the dominance of the role of the central government compared to the independence of the Lumajang Regency Regional Government because it is considered that the Lumajang Regency Regional Government has insufficient capacity to carry out regional autonomy effectively. This finding aligns with the results of research conducted by Alfian & Digdowiseiso (2023) regarding the financial performance of the Bima Regency Regional Government during the 2017-2021 period. The research results found the same pattern, where the Regional Financial Independence Ratio had an average of 8.98%, which shows that the regional financial capacity of Bima Regency is classified as Very Low. This reflects the relationship pattern as an Instructive pattern, which can also be interpreted to mean that the central government has a more dominating role than regional governments' independence.

3.3. Regional Financial Dependency Ratio

Table 9. Results of Regional Financial Dependency Ratio Calculation

Fiscal year	Transfer Income	Realisation of Regional Income	Ratio (%)	Financial Dependency
2020	1,818,586,458,998	2,118,849,571,641	85.83	Tall
2021	1,836,834,543,479	2,161,880,436,241	84.96	Tall
2022	1,850,323,572,097	2,211,712,182,881	83.66	Tall
Average Regional Financial Dependency Ratio			84.82	Tall

Source: DJPK Ministry of Finance. Data processed (2023)

By referring to Table 9, it can be seen that the Regional Financial Dependency Ratio in Lumajang Regency shows a consistent decreasing trend from 2020 to 2022. For 2020, the Regional Financial Dependency Ratio reached 85.83% in the high dependency category. In 2021, there will be a decrease to 84.96%, which is still categorised as high dependency. The decline in the Regional Financial Dependency Ratio continues until 2022, reaching 83.66% in the high category. This situation indicates that the Lumajang Regency Regional Government, during the 2020-2022 period, has attempted to increase its regional income to reduce dependence on the central government. However, the level of dependence is still high. The Regional Financial Dependency Ratio of Lumajang Regency in the 2020-2022 period has an average percentage of 84.82%, which is still categorised as a high level of dependency. This position shows that Lumajang Regency's financial dependence on central government transfer funds is still high. This situation aligns with the findings from research conducted by Digdowiseiso & Zarkasyi (2023) regarding analysing fiscal decentralisation in Bulukumba Regency during the 2016-2020 period. This research revealed that the Dependency Ratio was also high, with an average value of 82.89%. This finding reaffirms that Bulukumba Regency's dependence on the central government regarding transfer funds is still quite significant.

3.4. Regional Original Income Effectiveness Ratio

Table 10. PAD Effectiveness Ratio Calculation Results

Fiscal year	Realisation of PAD	PAD Budget	Ratio (%)	PAD effectiveness
2020	300.263.112.643	320,544,289,742	93.67	Effective enough
2021	325,045,892,762	307.949.108.192	105.55	Very effective
2022	361.388.610.784	307.074.607.855	117.69	Very effective
Average PAD Effectiveness Ratio			105.64	Very effective

Source: DJPK Ministry of Finance. Data processed (2023)

By referring to the calculation results from Table 10 above, it can be revealed that the Effectiveness Ratio of Original Regional Income (PAD) in Lumajang Regency during the 2020-2022 period experienced a consistent increase. In 2020, the PAD Effectiveness Ratio reached 93.67%, included in the Moderately Effective category. Then, in 2021, this ratio increased to 105.55% and was categorised as Very Effective. This increase continues in 2022, with the ratio reaching 117.69%, and this situation is categorised as Very Effective. This is due to the increasing realisation of PAD revenues yearly, while the PAD budget target is decreasing yearly. Lumajang Regency's PAD Effectiveness Ratio during the 2020-2022 period has an average figure of 105.64%, with a Very Effective categorisation. This situation indicates that the Lumajang Regency Regional Government has been successful and very influential in managing Regional Original Income (PAD). This situation consistently reflects the findings of research conducted by Digdowiseiso et al. (2023) regarding the analysis of the financial performance of the Cilacap Regency Regional Government in 2018-2022. According to the research results, the average value of the PAD Effectiveness Ratio is 105.94%, which is classified as very effective in this category. These findings also illustrate that the Cilacap Regency Regional Government can achieve a high level of effectiveness in managing Regional Original Income (PAD).

3.5. Regional Financial Efficiency Ratio

Table 11. Results of Regional Financial Efficiency Ratio Calculation

Fiscal year	Realisation of Regional Expenditures	Realisation of Regional Income	Ratio (%)	Financial Efficiency
2020	2,028,732,782,607	2,118,849,571,641	95.75	Less efficient
2021	2,150,424,463,381	2,161,880,436,241	99.47	Less efficient
2022	2,248,761,063,561	2,211,712,182,881	101.68	Not efficient
Average Regional Financial Efficiency Ratio			98.96	Less efficient

Source: DJPK Ministry of Finance. Data processed (2023)

By referring to the data on Realized Regional Expenditures and Realized Regional Income listed in Table 11, it can be seen that the Regional Financial Efficiency Ratio (REKD) in Lumajang Regency during the 2020-2022 period shows a trend of increasing inefficiency. In 2020, Lumajang Regency's REKD reached 95.75% and was categorised as Less Efficient. Furthermore, in 2021, there will increase in REKD to 99.47%, categorised as Less Efficient. This increase will continue until 2022, with REKD reaching a value of 101.68%, and is included in the Inefficient category. The average REKD during 2020-2022 is 98.96%, classified as Less Efficient. This situation indicates that the Lumajang Regency Regional Government is less efficient in managing regional finances, where the increase in Realized Regional Expenditures incurred is more significant than the increase in Realized Regional Income, especially in increasing PAD. This is in line with the results of research from Afifah et al. (2023) regarding the analysis of the regional financial performance of Magelang City for the 2016-2021 period. This research depicts a similar pattern, where the Regional Financial Efficiency Ratio is recorded as having an average value of 97.48%, categorised as less efficient. From these findings, it can be seen that the Regional Government of Magelang City is facing challenges related to collecting Original Regional Income (PAD) with a level of efficiency that is less than optimal.

3.6. Capital Expenditure Ratio

Table 12. Capital Expenditure Ratio Calculation Results

Fiscal year	Realisation of Capital Expenditures	Realisation of Regional Expenditures	Ratio (%)	Category
2020	198.145.592.481	2,028,732,782,607	9.77	Fulfilled
2021	211.211.038.107	2,150,424,463,381	9.82	Fulfilled
2022	301.046.181.893	2,248,761,063,561	13.39	Fulfilled
Average Capital Expenditure Ratio			10.99	Fulfilled

Source: DJPK Ministry of Finance. Data processed (2023)

Referring to the results of the Lumajang Regency Capital Expenditure Ratio (RBM) calculation, as seen in Table 12 above, there was an increase yearly in 2020-2022. The Lumajang Regency Capital Expenditure Ratio (RBM) in 2020 reached 9.77%, categorised as Fulfilled. In 2021, RBM increased to 9.82%, also included in the Fulfilled category. The increase in RBM will continue in 2022, reaching 13.39% and remaining in the Fulfilled category. The average Capital Expenditure Ratio for Lumajang Regency in the 2020-2022 is 10.99%. According to Mahmudi (2019), capital expenditure is routine and has medium- and long-term benefits. Generally, the proportion of Capital Expenditures to Regional Expenditures usually ranges between 5-20%. In this case, Lumajang Regency's RBM, with an average of 10.99%, reflects that the regional expenditure allocation for capital expenditure still meets 5-20% standards. This finding is in line with the results of research conducted by Digdowiseiso & Rahadi (2023) regarding the analysis of the financial performance of the Bandar Lampung City Government in the 2018-2022 fiscal year period. The research also notes that the Bandar Lampung City Government consistently realises capital expenditure in a percentage range of between 5% and 20%. During this period, all capital expenditure realisations were classified in the Fulfilled category, reflecting the government's consistency and success in fulfilling its capital expenditure commitments to maintain balanced regional financial management.

4. Conclusion

Referring to the calculation results of the Fiscal Decentralization Ratio (RDDB), Lumajang Regency during the 2020-2022 period has an average RDDB of 15.18%, which indicates that Lumajang Regency is in the Poor category. This condition indicates that the capacity of the Lumajang Regency Regional Government is still lacking in increasing Regional Original Income (PAD). Meanwhile, the most significant portion of Lumajang Regency's Original Regional Income (PAD) for the 2020-2022 period comes from other legitimate PAD sources, with an average of 63% of the total PAD.

Referring to the results of calculating the Regional Financial Independence Ratio (RKID) of Lumajang Regency during the 2020-2022 period, the RKID average was 17.91%, which indicates that the regional financial independence of Lumajang Regency is in the Very Low category, where the Regional Government of Lumajang Regency is still significantly relies on transfer funds from the central government. This relationship pattern can be interpreted as an instructive pattern, which shows the dominance of the role of the central government compared to the independence of the Lumajang Regency Regional Government because it is considered that the Lumajang Regency Regional Government cannot yet implement regional autonomy effectively.

By referring to the results of calculating the Regional Financial Dependency Ratio of Lumajang Regency during the 2020-2022 period, Lumajang Regency has a Regional Financial Dependency Ratio with an average figure of 84.82%, which is categorised as a high level of dependency. This position indicates the still high dependence on the finances of the Lumajang

Regency Regional Government on the central government. However, the decreasing trend in the Regional Financial Dependency Ratio figures during the 2020-2022 period indicates that the Lumajang Regency Regional Government has increased its regional income to reduce dependence on the central government.

By referring to the calculation results of the Regional Original Income (PAD) Effectiveness Ratio, Lumajang Regency for 2020-2022 has a PAD Effectiveness Ratio with an average figure of 105.64%, with a Very Effective categorisation. This situation shows that the Lumajang Regency Regional Government has been successful and very influential in managing Regional Original Income (PAD).

Referring to the results of calculating the Regional Financial Efficiency Ratio (REKD), Lumajang Regency during the 2020-2022 period has an average REKD of 98.96%, and this condition is classified as Less Efficient. This situation indicates that the Lumajang Regency Regional Government is less efficient in managing regional finances, where the increase in Realized Regional Expenditures incurred is more significant than the increase in Realized Regional Income.

Referring to the results of calculating the Capital Expenditure Ratio (RBM) for Lumajang Regency during the 2020-2022 period, the average RBM was 10.99%. Generally, the ratio of capital expenditure to regional expenditure usually ranges from 5% to 20%. In this case, the Capital Expenditure Ratio (RBM) of Lumajang Regency reflects that the allocation of Regional Expenditures for Capital Expenditures still meets 5-20% standards.

Based on the explanation above, it can be concluded that the overall financial performance of the Lumajang Regency Regional Government during 2020-2022 has essentially not reached optimality. However, the calculation results show an increase in financial performance every year. In 2022, it was recorded as the peak achievement by the Lumajang Regency Regional Government.

The Lumajang Regency Regional Government needs to optimise managing the potential for Regional Original Income (PAD) to increase decentralisation and regional financial independence. In this context, strong initiative and commitment from the Regional Government is needed to increase PAD. Increasing local original income can be achieved by utilising resources effectively and efficiently to support activities that increase productivity and regional economic growth. This increase in productivity has the potential to create sources for new regional taxes and levies, which in turn allows for an increase in original regional income and overall improves regional financial performance.

The Lumajang Regency Regional Government needs to implement overall efficiency in regional financial management by detailing policies and practices to ensure optimal use of financial resources, increase revenue, and reduce costs to achieve a better balance between quality public services and compliance with community needs with available resources.

In facing the era of regional autonomy that demands sustainable development, the Lumajang Regency regional government is expected to prioritise developing human resources (HR) quality. This development strategy involves investment in the education and training sector, especially those related to regional financial management. Furthermore, in hiring HR personnel, one must carefully consider each individual's qualifications, abilities, and specialisation. By integrating these steps, it is hoped that regional governments can

optimise the potential of their human resources to support the implementation of government duties and responsibilities effectively and efficiently in the context of regional autonomy.

In the context of this research, further research is recommended to involve analysis of regional financial performance by considering various related financial ratios. Ratio analysis that can be explored includes the financial flexibility ratio, compatibility ratio, and economic growth ratio. It is hoped that further research into these aspects will provide deeper insight into the dynamics and effectiveness of regional financial management.

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