Analysis of Growth Ratio, Effectiveness Ratio, and Efficiency Ratio in Bandung City

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Abstract
Regional financial performance reflects the quality of financial management performance in a region. This research aims to analyse the financial performance of the Bandung City Government for the 2018-2022 budget year. The analysis was carried out by calculating the growth, effectiveness, and efficiency ratios based on the figures presented in the Bandung City APBD Budget Realization Report. This research uses quantitative descriptive analysis methods. The results of this research show that the financial performance of the Bandung City Government using the growth ratio is still not optimal because in 2020 there was a significant decline. The effectiveness ratio in 2018 and 2019 was categorised as less effective and experienced considerable development from 2020 to 2022 to the practical category. The efficiency ratio is classified as less efficient because the average value for 2018-2022 is 98.91%. The efficiency ratio in 2018-2020 continued to decline to below 100%, but in 2021-2022, it increased again until it reached above 100%, which means it became inefficient.

Keywords: Growth Ratio, Effectiveness Ratio, Efficiency Ratio

1. Introduction

In carrying out government functions to realise the state's goals, rights, and obligations, they can be valued in money and managed in a state financial management system. State finances are contained in an orderly manner, in compliance with statutory regulations, efficiently, economically, effectively, transparently, and responsibly by paying attention to a sense of justice and decency to achieve state goals by preparing the Regional Revenue and Expenditure Budget (APBD) every year.

The Regional Revenue and Expenditure Budget (APBD) is the annual regional government financial plan approved by the Regional People's Representative Council (DPRD), stipulated in a Regional Regulation. The needs of government administration and regional revenue capabilities prepare the APBD. APBD has the functions of authorisation, planning, supervision, allocation, distribution, and stabilisation.

Handing over regional financial resources is a form of handing over government affairs to regions, and it is organised based on the principle of autonomy. In government affairs, regions must provide services and welfare to regional communities. Providing financial resources to areas must be balanced with the burden on the provincial government; this balance guarantees the implementation of regional government.

Good regional financial performance can be seen from the effectiveness of exploring regional potential, lower dependence on the central government, and a more significant portion of PAD financing regional development. The Minister of Finance of the Republic of Indonesia, Sri Mulyani, stated that on a national average, currently, PAD is still very limited, regional dependence on transfers to regions is still very high, this dependence reaches 80.1%, and PAD contribution is only around 12.87% (Olivia, 2018).

The city of Bandung has quite a high tourist attraction. Tourism is Bandung City's local revenue (PAD) primary sector. Head of the Bandung City Culture and Tourism Service, Kenny Dewi Kaniasari, stated that 70% of PAD in Bandung City comes from the creative economy, hospitality and entertainment sectors.

1.1. Regional Financial Management

Based on Government Regulation Number 12 of 2019 concerning Regional Financial Management, regional financial management is all activities that include planning, budgeting, implementation, administration, reporting, accountability, and regional financial supervision. Regional financial accountability is realised in the form of financial reports. Financial reports must demonstrate effective, efficient, and transparent regional financial management. The presentation of regional government financial reports includes budget realisation reports, reports on changes in excess budget balances, balance sheets, operational reports, cash flow reports, reports on changes in equity, and notes to financial reports.

1.2. Growth Ratio

The Growth Ratio is a ratio that aims to determine whether, in a budget in one or several periods in question, the performance of the regional government through the financial performance of its APBD experienced a positive increase in growth or vice versa, namely negative. If there is a decline or negative growth in the future, this is a warning and an indication of a decline in financial performance in the area concerned (Mahmudi, 2019). The growth ratio is calculated using the following formula:

$$\text{Growth Ratio} = \frac{\text{PAD year (t)} - \text{PAD year (t-1)}}{\text{Annual income (t-1)}}$$

1.3. Effectiveness Ratio

The effectiveness ratio describes the regional government's ability to realise planned regional income compared to targets set based on real potential (Faud, 2016). The effectiveness ratio is calculated using the following formula:

$$\text{Effectiveness Ratio} = \frac{\text{Realisation of PAD}}{\text{PAD Budget}} \times 100\%$$

Table 1. Effectiveness Ratio Criteria

Effectiveness Ratio	Criteria
>100%	Very effective
90% - 100%	Effective
80% - 90%	Effective enough
60% - 80%	Less effective
<60%	Ineffective

1.3. Efficiency Ratio

Efficiency is the comparison between output and input or, in other terms, output per unit of input. An organisation, program, or activity is said to be efficient if it can produce a specific output with the lowest possible input, or with a specific input, it can produce the maximum output (spending well). An activity can be considered efficient if the work results can be achieved using low resources and funds (Mahmudi, 2019). The efficiency ratio is calculated using the following formula:

$$\text{Efficiency Ratio} = \frac{\text{Realisation of Regional Expenditures}}{\text{Realisation of PAD}} \times 100\%$$

Table 2. Efficiency Ratio Criteria

Efficiency Ratio	Criteria
>100%	Not efficient
90% - 100%	Less efficient
80% - 90%	Quite Efficient
60% - 80%	Efficient
<60%	Very Efficient

2. Research Methods

The type of research used in this research is quantitative descriptive research. Research methods are descriptively classified into types of research based on the level of explanation. The descriptive research method aims to describe the condition or value of one or more variables independently (Sugiyono, 2019).

Quantitative research is a research method based on the philosophy of positivism as a scientific or scientific method because it fulfils scientific principles concretely or empirically, objective, measurable, rational, and systematic (Sugiyono, 2019).

This research seeks to describe, analyse, and interpret the financial performance of the Bandung City Government for the 2018 to 2022 budget year as measured by calculating financial ratios based on the Bandung City APBD Budget Realization Report.

2.1. Data source

The data used in this research is secondary data from the Bandung City Government. The data taken is the Bandung City Government APBD Budget Realization Report. The research years are limited to the range of 2018 to 2022.

2.2. Analysis Tools

The Bandung City government's financial data calculation uses the formula presented to analyse each financial ratio.

3. Research and Discussion

3.1. Growth Ratio

Table 3. Calculation of Bandung City Government Growth Ratio

Year	Regional Original Income Year t (Rp)	Regional Original Income Year t-1 (Rp)	Revenue Growth (%)
2018	2,571,591,786,199	2,578,457,420,885	-0.27
2019	2,548,258,990,275	2,571,591,786,199	-0.91
2020	2,063,783,773,735	2,548,258,990,275	-19.01
2021	2,195,971,884,100	2,063,783,773,735	6.41
2022	2,759,323,397,868	2,195,971,884,100	25.65
Average			1.51

Source: Processed Data (2024)

The Bandung City Government's revenue growth ratio in 2018 was negative and fell to -19.01% in the 2020 fiscal year. This means that the PAD received by the Bandung City Government in the current fiscal year is always smaller than the PAD received in the previous year. The improved growth ratio in the 2021 fiscal year is joyous and peaks at 25.65% in the 2022 fiscal year. This shows that the Bandung City Government's PAD continues to increase from the previous year.

3.2. Effectiveness Ratio

Table 4. Calculation of Bandung City Government Effectiveness Ratio

Year	Regional Original Revenue Budget (Rp)	Realisation of Regional Original Income (Rp)	Effectiveness Ratio (%)	Criteria
2018	3,397,309,517,811	2,571,591,786,199	75.69	Less effective
2019	3,252,540,610,057	2,548,258,990,275	78.35	Less effective
2020	2,264,814,094,039	2,063,783,773,735	91.12	Effective
2021	2,409,804,328,188	2,195,971,884,100	91.13	Effective
2022	3,042,796,596,349	2,759,323,397,868	90.68	Effective
Average			84.49	Effective enough

Source: Processed Data (2024)

The effectiveness ratio of the Bandung City Government in 2018 and 2019 is classified as less effective because the realisation of PAD does not exceed 80% of the budgeted PAD target. In 2020, financial performance increased significantly, with an effectiveness ratio reaching 91.12%, which was within the effective criteria, and increased by 0.01% to 91.13% in 2022. A decrease of 0.45% occurred in 2022 and remained within the effective criteria. The average effectiveness ratio for the 2018 to 2022 budget year is 84.49%, indicating that the financial performance of the Bandung City Government is quite effective.

3.3. Efficiency Ratio

Table 4. Calculation of Bandung City Government Efficiency Ratios

Year	Realised Income (Rp)	Realised Expenditures (Rp)	Efficiency Ratio (%)	Criteria
2018	5,939,997,423,418	6,112,928,484,623	102.91	Not efficient
2019	6,381,818,944,636	6,310,647,268,360	98.88	Less efficient
2020	5,643,962,288,458	5,374,019,732,054	95.22	Less efficient

2021	5,838,244,931,395	5,646,807,120,638	96.72	Less efficient
2022	6,415,745,415,059	6,446,027,711,554	100.47	Not efficient
Average			98.91	

Source: Processed Data (2024)

In 2018, the realisation of Bandung City Government expenditure exceeded the realisation of income, making the efficiency ratio reach 102.91%, which is classified as inefficient. The efficiency ratio in 2019 and 2020 continued to decline, so it was in the less efficient category and increased again in 2021. In 2022, expenditure realisation again exceeded income realisation with an efficiency ratio of 100.47%, including the ineffective category. This shows that the Bandung City Government is less efficient in utilising the budget to achieve output.

4. Conclusion

This research attempts to measure the financial performance of the Bandung City Government using growth ratio, effectiveness ratio, and efficiency ratio measuring instruments. From the research results discussed, the following can be concluded: (1) The income growth ratio for the Bandung City Government experienced a significant decline in 2019 and a significant increase in 2022. The growth ratio shows that the Bandung City Government's PAD continues to improve from previous years; (2) Based on the effectiveness ratio of the Bandung City Government, regional financial performance will start to be effective in 2020. Although there is a decline, which will not be significant in 2022, the Bandung City Government needs to optimise PAD to achieve the targets set; and (3) The efficiency ratio of the Bandung City Government for the fiscal year from 2018 to 2020 has decreased and has increased again until the 2022 fiscal year. The average efficiency ratio is 98.91%, indicating that the financial performance of the Bandung City Government falls under the criteria of being less efficient.

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