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Financial Ratio Analysis in Measuring the Financial Performance of Bandung City Government Institutions in 2021-2022

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Abstract

The government can consider recently implemented policies and design assessments as a standard for decision-making. The objective of this analysis is to analyze the financial performance of the Bandung City Government in 2021-2022. The financial performance of Bandung City is determined based on financial ratio analysis, including independence, effectiveness, harmony, efficiency, and growth ratios. The type of analysis used is quantitative descriptive research, with data processing using documentation techniques from Bandung City's financial information. The conclusion of this study encourages improvement in financial ratios and provides information needed by regional financial management to evaluate financial performance.

Keywords: Financial Performance, Financial Reports, Financial Ratios, Government

INTRODUCTION

Government Regulation No. 71 of 2010 concerning Government Accounting Standards, replacing Government Regulation No. 24 of 2005 concerning Government Accounting Standards, provides the basic design used by the Indonesian government to implement government accounting standards. Comparing various budget components and using financial performance as a benchmark for regional finances are two ways to determine the relationship between the budget and financial performance.

Regional autonomy impacts financial performance, so a clear plan is necessary if the government is to function effectively. Regional governments need to strengthen their financial management capabilities if they are to achieve the goals of regional

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autonomy. Furthermore, the budget is tracked to produce periodic accountability reports. Government Regulation No. 71 of 2010 regulates the budget situation.

This research is motivated by the issues of the Corona Virus Disease outbreak which has had a significant impact. The estimated 2021 Regional Budget (APBD) was amended by Bandung City Regional Regulation Number 9 of 2021, stipulated on October 27, 2021, becoming one of the obstacles for Bandung City in meeting its budget targets. The adjustments are based on the regional government's work strategy for 2021. The results of the evaluation of this year's development implementation indicate a discrepancy between the targets that have been set and the targets that must be achieved, in accordance with the stages of circular letter number 900/SE.103-Bappelitbang dated August 2, 2021. The allocation of general funds of IDR 51.80 billion for Bandung City is based on Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.07/2021 concerning the Management of Transfers to Regions and Village Funds for the 2021 Fiscal Year.

A report on Bratapos.com further supports the 2022 budget of the Bandung City Council (DPRD) and the Bandung City Government, which is Rp5.94 trillion lower than the 2021 budget. In 2022, the Bandung City Government is still struggling to address the impact of COVID-19. Excessive focus on labor in capital expenditures, which is indicated at 9.41% or Rp626 billion and contributes 30%-35% of total spending in 2022, is also still lacking in community prioritization.

To ensure an increase in budget ratios from subsequent periods, analytical research examined the performance of the Bandung City budget. Financial ratio analysis provides financial management managers with information to assess financial success. The government assesses newly established policies and uses them as benchmarks for decision-making.

In order to evaluate the level of budget ratios that include the ratios of independence, effectiveness, harmony, efficiency, and growth in financial reports to estimate the financial performance of Bandung city government agencies, this study compares the level of financial ratio calculations from 2021 to 2022.

LITERATURE REVIEW

Financial ratios

Financial ratios offer data to aid decision-making and act as benchmarks for assessing the performance of an organization or government. Financial ratios compare figures from financial statements to ensure a company's financial health and assess

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management effectiveness from period to period by comparing financial statements from one period to the next. (Lithfiyah, Irwansyah & Fitiria, 2019)

Regional Finance

Planning, budgeting, implementation, management, reporting, accountability, and supervision are all included in the overall regional financial management activities, as stated in the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 77 of 2020 concerning Technical Management of Regional Finances.

Financial Revenue, Expenditure, Revenue Growth, Regional Expenditure, Degree of Decentralization, Degree of Regional Dependence, Independence, Effectiveness and Efficiency of PAD, Effectiveness and Efficiency of Regional Taxes, Efficiency of Regional Taxes, Effectiveness of Regional Original Income, and Efficiency Variance Analysis or Variance Analysis, Expenditure and contribution of BUMD are various financial indicators used in regional financial operations.

Financial performance

Financial reports from previous periods can be reviewed and shared to measure company performance. Financial performance is understood as the results or achievements generated over a specific period by company management in effectively carrying out its asset management role.

Analyzing a company's financial performance has two objectives: to reveal the organization's liquidity and solvency and to what extent financial implementation criteria have been correctly and successfully implemented. Investors' decisions about whether to remain with a company or explore alternative options can be made based on its financial performance..

METHOD

This study uses a quantitative descriptive methodology with a documentation approach obtained from the financial reports of the Bandung City Government for 2021-2022. The aim is to determine the extent to which the financial performance of the Bandung City Government in 2021-2022 is evaluated through the calculation of financial ratios.

This study uses a historical data collection methodology along with information objects from the Bandung city government's financial reports. The financial reports serve as a set of criteria for collecting this data; specifically, the explanations and details of the

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reports are suitable for comparison when analyzing Bandung city's financial ratios in 2021-2022, which acts as a problem solver for researchers.

The following are the formulas and requirements for growth ratio, harmony ratio, efficiency ratio, independence ratio, and effectiveness ratio.

Independence Ratio

The independence ratio is based on the government's ability to function or achieve its goals without the assistance of the central government. The formula for the independence ratio

$$RasioKemandirian = \frac{PAD}{PendapatanTransfer} \times 100\%$$

Tabel 3.1 Kriteria Rasio Kemandirian

Presentasi Kemandirian	Kemampuan Keuangan	Pola Hubungan
0% - 25%	Rendah Sekali	Instruktif
25% - 50%	Rendah	Konsultatif
50% - 75%	Sedang	Partisipatif
75% - 100%	Tinggi	Deleglatif

Source: Abdul Halim in Amanda (2021)

Explanation of the relationship pattern in the independence ratio

I. Instructive Pattern

This pattern shows that local governments are dependent on the central government.

II. Consultative Pattern

Increased local government authority resulting in reduced direction from the central government.

III. Participatory pattern

The level of independence of regional governments is increasing so that the role of the central government is becoming less important.

IV. Delegative Pattern

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The delegative pattern shows that the regional government is independent without interference from the central government.

Effectiveness Ratio

The government's ability to meet established and planned budget targets. The budget and PAD performance are compared using the effectiveness ratio.

$$RasioEfektivitas = \frac{RealisasiPAD}{AnggaranPAD} \times 100$$

Tabel 3.2 Kriteria Rasio Efektivitas

Presentasi Kinerja Keuangan	Kriteria
>100%	Sangat Efektif
90% - 100%	Efektif
80% - 90%	Cukup Efektif
60% - 80%	Kurang Efektif
<60%	Tidak Efektif

Source: Ministry of Home Affairs, Ministerial Decree No. 690.900.327 of 1966, as cited in Amanda (2021)

Harmony ratio

How the government distributes funds to carry out expenditures, activities, and other budgetary matters; how the government determines which remaining funds are prioritized, such as capital and operational expenditures. The amount of money used for operational expenses decreases as the percentage of cash allocated to capital expenditures increases.

$$RasioBelanjaOperasi = \frac{TotalBelanjaOperasi}{TotalBelanja} \times 100\%$$

$$\text{Rasio Belanja Modal} = \frac{TotalBelanjaModal}{TotalBelanja} \times 100\%$$

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Source: Ministry of Home Affairs, Ministerial Decree No. 690.900.327 of 1966, as cited in Amanda (2021)

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Efficiency Ratio

The cost-to-income ratio is the ratio between the costs incurred to generate income and the amount of income actually earned.

$$Rasio\ Efiensi = \frac{RealisasiBelanja}{Realisasipendapatan} \times 100\%$$

Source: Ministry of Home Affairs, Ministerial Decree No. 690.900.327 of 1966, as cited in Amanda (2021)

Growth Ratio

As a comparative tool to assess period differences and promote higher revenues, the growth ratio displays the increase in realized revenue from one period to the next:

$$RasioPertumbuhan = \frac{PendapatanTahun\ n - PendapatTahun(n-1)}{PendapatanTahunan\ (n-1)} \times 100\%$$

Source: Ministry of Home Affairs, Ministerial Decree No. 690.900.327 of 1966, as cited in Amanda (2021)

Results and Discussion

Independence Ratio

The government handles funding for all initiatives, including public services, according to a self-sufficiency ratio, free from federal government intervention. The self-sufficiency ratio indicates the level of public welfare.

Table 1 Results of the Independence Ratio Calculation

Year	PAD Realization	Transfer Realization	Ratio	Ability Finance	Pattern Connection
2021	Rp2,195,971,884,100.00	Rp3,417,764,482,463.00	64.25%	Currently	Participatory
2022	Rp2,795,323,397,868.39	Rp3,652,222,017,191.00	76.53%	Tall	Delegative
Average			70.39%	Currently	Participatory

Source: Compiled in 2024

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The results of the Bandung City Government's financial independence ratio calculation are shown in Table 4.1. In 2022, the ratio calculation yielded a result of 76.53% with a delegative financial capability level, but in 2021, the independence ratio showed a ratio of 64.25% with a participatory financial capability level.

The results of the independence ratio indicate that the Bandung City Regional Government is still under the supervision of the Central Government and its funding for government projects and development is still insufficient in 2021. In 2022, the City of Bandung will have sufficient financial resources, so the central government will not be involved in city financial management. This indicates a delegative relationship structure. On the other hand, the calculation of the average Bandung city government shows results with a moderate level of financial capability, which indicates that involvement influences the relationship pattern at a ratio level of 70.39%. This shows that to ensure good financial management, the city government still requires regulations from the central government. Regional Funding for the City of Bandung.

Effectiveness Ratio

The effectiveness ratio also functions as a measure of local government performance in achieving anticipated PAD targets.

Table 2 Results of Effectiveness Ratio Calculation

Year	PAD Realization	Regional Revenue Budget	Ratio	Criteria
2021	Rp2,195,971,884,100.00	Rp2,409,804,328,188.00	91.12%,	Effective
2022	Rp2,795,323,397,868.39	Rp3,042,796,596,349.00	91.86%	Effective
Average			91.86%	Effective

Source: Compiled in 2024

Bandung City has an excellent effectiveness ratio, with an average of 91.86% from 2021 to 2022. This demonstrates the government's ability to generate local revenue that can be maximized through the collection of regional taxes and levies, so that the Bandung City Government can implement the PAD plan efficiently.

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Harmony Ratio

The harmony ratio determines the overall capital expenditure and operational expenditure as well as the government's performance in terms of budget optimization and prioritization.

Table 3 Content Distribution

Year	Shopping		Total Shopping	Ratio	
	TotalOperatingSpending	Total Capital Expenditure		Operation	Capital
2021	Rp4,841,595,685,018.20	Rp721,566,424,793.00	Rp5,646,807,120,638.20	85.74%	12.77%
2022	Rp5,779,323,247,033.81	Rp644,171,724,240.47	Rp6,446,027,711,554.28	89.65%	10%
Average				87.70%	11.38%

Source: Compiled in 2024

The Bandung City Government is expected to spend more on operational costs in 2021-2022 than on capital expenditures, based on estimates from the previous table. Furthermore, the calculations above show an average operating cost of 87.70% and capital expenditure of 11.38%. This suggests that Bandung's current needs, including paying its employees, are prioritized over the needs of a growing metropolitan area.

Efficiency Ratio

If the Bandung city government achieves results below 80%, its performance can be considered efficient. If the efficiency ratio is lower, its financial performance is strong.

Table 4 Results of Efficiency Ratio Calculation

Year	Shopping Realization	Revenue Realization	Ratio	Criteria
2021	Rp5,675,599,520,638.20	Rp5,838,244,931,395.00	97.21%	Lack of Efficiency
2022	Rp6,473,479,211,554.28	Rp6,415,745,415,059.39	101%	Inefficient
Average			99.05%	Lack of Efficiency

Source: Compiled in 2024

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Based on the calculation table, the efficiency ratio of Bandung City in 2022 is predicted to reach 101%, up from 97.21% in 2021. As an illustration, the average for Bandung City is 99.05%. This is due to the government's poor financial performance in collecting regional taxes and spending more than it received in 2022, thus being considered inefficient. To optimize the effectiveness of the regional budget, the Bandung City Government has the authority to increase annual spending and set priorities for such increases.

Growth Ratio

The growth ratio is a measure of budget performance used to assess the achievement of objectives and track trends over time. Calculating the growth ratio yields results.

Table 5 Results of Growth Ratio Calculation

Information	2021	2022	Average
Locally-generated revenue	Rp2,195,971,884,100.00	Rp2,795,323,397,868.39	
PAD growth		27.29%	27.29%
income	Rp5,838,244,931,395.00	Rp6,415,745,415,059.39	
Revenue Growth		9.89%	9.89%
Operation Shopping	Rp4,841,595,685,018.20	Rp5,779,323,247,033.81	
GrowthOperation Shopping		19.36%	19.36%
Capital Expenditure	Rp721,566,424,793.00	Rp644,171,724,240.47	
GrowthCapital Expenditure		-10.72%	-10.72%

Source: Compiled in 2024

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A comparison of 2021 and 2022 shows a decrease in capital expenditures, but an increase in local revenue (PAD), revenue growth, and operational growth, based on growth ratio calculations. Comparing capital expenditure growth with operational expenditure growth, we can conclude that growth in 2022 will be "poor."

CONCLUSION

Financial ratio analysis was used to evaluate the financial performance of Bandung City Government Agencies in 2021-2022. Using financial ratio analysis, which includes independence, effectiveness, harmony, efficiency, and growth ratios, this study evaluates the financial performance of Bandung City. This technique utilizes information from the Bandung City Government Financial Report and a quantitative descriptive methodology. The COVID-19 pandemic has impacted financial performance, according to the study's findings, and Bandung City has undergone adjustments to its regional revenue and expenditure budget. Financial ratio analysis helps understand how financial ratios improve from one decade to the next and provides regional financial management with the knowledge they need to begin achieving financial performance.

SuggestionFor this research, improving budget management: The 2021 financial report has included the updated regional revenue and expenditure budget, which is based on Bandung City Regional Regulation No. 9 of 2021. To ensure that the budget allocated to the government does not conflict with the established financial objectives, the Bandung City Government can improve the effectiveness of budget management by increasing transparency in the use of general funds.Reducing Dependence on the Central Government: The Bandung City Government's dependence on the central government is clearly visible based on the independence ratio analysis conducted as part of a study evaluating the government's financial performance. The Bandung City Government is expected to reduce its dependence and improve more effective financial management in the future. More Effective Fund Management: A budget of Rp 5.94 trillion has been set by the Bandung City Council and the Bandung City Government for the 2022 financial report. To improve the effectiveness of financial management, the Bandung City Government is required to increase accountability and transparency in the use and.

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