

Financial Performance Analysis of Regional Governments: Case Study In Pelalawan Regency Period 2019 - 2023

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Abstract : This study aims to analyze the financial performance of the Pelalawan Regency Government during the 2019–2023 period using financial ratio analysis. The research employs a quantitative descriptive approach based on secondary data obtained from the Regional Government Financial Statements (LKPD). Financial performance is evaluated through the financial independence ratio, Local Own-Source Revenue (PAD) effectiveness ratio, fiscal decentralization ratio, financial management efficiency ratio, and budget harmony ratio. The results indicate that the financial performance of the Pelalawan Regency Government fluctuated during the observation period. Although the effectiveness of PAD collection was relatively good, the level of regional financial independence remained low because of high dependence on transfer funds from the central government. Furthermore, financial management efficiency and budget allocation require improvement to ensure optimal use of public resources. Therefore, the local government should strengthen PAD potential, improve financial management efficiency, optimize budget allocation, and enhance fiscal capacity to support sustainable regional development and long-term financial independence.

Keywords: *Financial Performance, Local Government, Pelalawan Regency, Financial Ratio Analysis*

INTRODUCTION

The public sector is a part of and closely related to regional financial management, playing a role in meeting community needs. Public sector funding sources come from the community, such as regional retributions and taxes. Regional finances are inseparable from management procedures that are separated and owned by the region, along with other legitimate income sources that are bound by applicable laws (Horota et al., 2017).

Management and accountability in regional autonomy and regional finance activities are regulated in Government Regulation No. 58 of 2005, which states that financial management in the region starts from planning to supervision of regional finances. Performance improvement is considered successful if it

aligns with government regulations (Setianingrum and Haryanto, 2020).

Performance is the achievement of what has been planned by an organization. If the achievement aligns with the plan, the organization's performance can be considered good. Conversely, if the achievement exceeds the plan, the organization's performance can be considered very good. However, if the planning does not meet the expected results, the performance is considered poor. Financial performance is a measurement tool using financial indicators.

Local governments play an important role in national development through effective and efficient financial management. Pelalawan Regency, as one of the regions in Riau Province, faces challenges in improving its financial

performance to support sustainable development. This study aims to analyze the financial performance of Pelalawan Regency from 2019 to 2023 using financial ratios to assess the effectiveness of regional financial management.

LITERATURE REVIEW

Definition of Local Government Financial Performance

Local Government Financial Performance is the output/result of activities / programs achieved or being achieved concerning the use of regional budgets with measurable quantity and quality. The region's capability can be assessed by evaluating the efficiency of services provided to the community (Hendro Sumarjo, 2010).

It is a measure or indicator used to assess the effectiveness and efficiency of financial resource management by local governments. This includes analysis of revenue, expenditure, asset management, and liabilities to achieve regional development objectives. Good financial performance reflects transparency, accountability, and the local government's ability to provide public services and improve community welfare (Mahmudi, 2019).

From the above definitions, it can be concluded that the financial performance of local governments is the level of achievement of financial results, covering budget and realization, using financial indicators set through policies or regulations during the fiscal period.

Objectives of Measuring Local Government Financial Performance

The measurement of local government financial performance is conducted to fulfill three objectives (Mardiasmo, 2018):

1. Improve regional government performance.
2. Assist in resource allocation and decision-making.
3. Realize public accountability and improve institutional communication.

According to Abdul Halim (2012), financial performance measurement is used as a benchmark to:

- Assess regional financial independence in funding regional autonomy.
- Measure the effectiveness and efficiency of realizing regional revenue.
- Measure how far the regional government's activities in spending regional income.
- Measure the contribution of each revenue source in regional revenue formation.
- Observe growth or development in revenue and expenditure over a certain period.

Regional Government Financial Reports

Per Government Regulation No. 71 of 2010 concerning Government Accounting Standards, the main components of financial statements include: Budget Realization Report, which discloses the financial activities of the central/regional government showing compliance with the APBN/APBD. It presents an overview of sources, allocations, and use of economic resources managed by the government in a reporting period.

In Minister of Home Affairs Regulation No. 77 of 2020 concerning Technical Guidelines for Regional Financial Management, the elements included in the Budget Realization Report are:

1. Revenue
2. Expenditure
3. Transfers
4. Surplus/Deficit (LRA)
5. Financing

6. Excess/Deficit of Budget Financing (SiLPA/SiKPA)

Financial Statement Analysis

As the party responsible for managing governance, development, and public service, local governments are obliged to report financial accountability based on resources collected from society, which serves as the basis for evaluating financial performance. One tool to analyze the financial performance of local governments is financial ratio analysis on the Regional Budget (APBD) that has been established and implemented (Abdul Halim, 2012).

Stakeholders interested in Local Government Financial Ratios (Abdul Halim, 2012) include:

1. The executive as a basis for preparing the next APBD.
2. The central/provincial government as input for fostering the implementation of regional finance management.
3. The community and creditors, as parties holding shares in local government, willing to lend or buy bonds.

Therefore, each local government measures its financial performance using several ratios, including:

- Regional Financial Independence Ratio,
- PAD Effectiveness Ratio,
- Fiscal Decentralization Degree Ratio,
- Regional Financial Efficiency Ratio, and
- Compatibility Ratio.

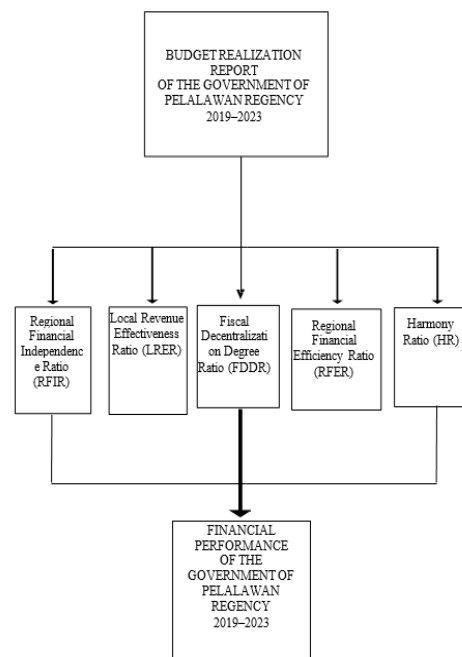


Figure 1. Conceptual Framework

Source: Author (2025)

METHODS

The object of this research is the financial performance of Pelalawan Regency Government from 2019 to 2023. The research location is at the Office of Regional Financial Management and Asset (BPKAD) of Pelalawan Regency.

Based on the existing issues, this research is a quantitative descriptive study, involving calculations on obtained financial data to address the research problems in line with the objectives.

Data collection is secondary, obtained through studying notes and documents available at the institution or company being researched, using the documentation method. This research aims to analyze the financial performance of Pelalawan Regency based on ratios:

Regional Financial Independence Ratio (RFIR)

$$RFIR = \frac{(PAD / \text{Total Revenue})}{(\text{Transfer Revenue} / \text{Total Revenue})} \times 100\%$$

RFIR depicts the dependence of the region on external funding sources. The higher the ratio, the lower the dependence on external aid (especially from the central and provincial governments) (Amin, 2015).

Local Revenue Effectiveness Ratio (LRER)

According to Abdul Halim (2012), the effectiveness ratio indicates the local government's ability to realize planned Local Revenue (PAD) compared to target based on the actual potential. An effective region is indicated by a ratio of at least 1 (100%). The higher the ratio, the better the region's capacity. Effectiveness relates to achieving policy targets or objectives (results).

$$\text{LRER} = \frac{\text{Realized PAD}}{\text{Budgeted PAD}} \times 100\%$$

Fiscal Decentralization Degree Ratio (FDDR)

FDDR measures how well a region funds its own governance activities, indicating the level of financial independence. The higher the FDDR, the more independent the region is, and the lower its dependence on transfers from the central government.

$$\text{FDDR} = \frac{\text{PADt}}{\text{TPDt}} \times 100\%$$

Regional Financial Efficiency Ratio (RFER)

RFER compares the costs incurred to generate revenue with actual revenue received. A financial performance is efficient if the ratio is less than 1 (100%). The smaller the RFER, the better the financial performance.

$$\text{RFER} = \frac{\text{Realized Regional Expenditure}}{\text{Realized Regional Revenue}} \times 100\%$$

Compatibility Ratio

This ratio depicts how well the local government prioritizes its allocations to operational and capital expenditures. A higher operational expenditure percentage indicates a tendency toward a bureaucratic and consumptive budget structure.

$$\text{Operational Expenditure Ratio} = \frac{\text{Total Operational Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

$$\text{Capital Expenditure Ratio} = \frac{\text{Total Capital Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

RESULTS AND DISCUSSION

Regional Government Budget (APBD) of Pelalawan Regency in 2019–2023 (in million Rupiah)

Table 1. Regional Government Budget (APBD) of Pelalawan Regency in 2019–2023

Description	YEAR				
	2019	2020	2021	2022	2023
A Revenue	1.585.727.28	1.455.238.36	1.595.482.99	1.682.726.36	1.951.653.69
1 Source Revenue	155.158.91	148.682.08	196.779.94	248.871.59	301.457.52
2 Transfer Revenue	1.373.924.07	1.243.785.98	1.334.381.04	1.433.298.80	1.649.696.18
3 Other Revenue	56.664,3	62.770,3	64.322,0	555.972,1	500.000.
B Expenditure	1.766.766.66	1.835.781.37	1.819.764.82	1.916.975.10	2.078.676.16
1 Operating Expenditure	1.187.496.00	1.237.303.16	1.265.486.54	1.397.616.18	1.510.672.51
2 Capital Expenditure	366.921.89	375.868.48	348.156.09	310.870.19	340.574.89
3 Unexpected Expenditure	1.364.25	21.937.00	2.760.26	624.07	500.00
4 Transfer	210.984.55	200.672.72	203.359.94	207.864.66	226.928.76
Surplus/Deficit	(181.039.38)	(380.543.01)	(224.281.84)	(234.248.74)	(127.002.47)

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency

Based on the table above, it can be explained that the revenue from 2019 to 2023 shows an increasing trend, from Rp 1,585,727,281,643.15 in 2019 to a peak of Rp 1,951,653,693,313 in 2023. The breakdown includes:

- Local Revenue, which gradually increased from Rp 155,158,906,702.15 in 2019 to Rp 301,457,515,202 in 2023.
- Transfer Revenue also increased from Rp 1,373,924,074,941 in 2019 to Rp 1,649,696,178,111 in 2023.
- Other legitimate income experienced a significant surge in 2022, from Rp 64,322,006,244 in 2021 to Rp 555,972,055, then decreased in 2023 to Rp 500,000,000.

Expenditure increased from Rp 1,766,766,659,103.50 in 2019 to Rp 2,078,676,160,004 in 2023, indicating increased government spending for various needs. The deficit was Rp 181,039,377,460.35 in 2019 and worsened to Rp 380,543,009,796.18 in 2020. Generally, regional revenue shows an increasing trend, while expenditures also increase correspondingly. Despite this, the deficit persisted throughout the period, slightly decreasing in 2023, indicating the need for more effective financial strengthen regional financial health.

Realization of the Regional Government Budget (APBD) of Pelalawan Regency in 2019–2023

(in million Rupiah)

Table 2. Realization of the Regional Government Budget (APBD) of Pelalawan Regency in 2019–2023

No.	Description	YEAR				
		2019	2020	2021	2022	2023
A	Revenue	1.701.183.86	1.475.175.46	1.594.521.03	1.587.691.98	1.743.505.63
1	Source Revenue	155.693.48	145.390.62	159.142.13	191.920.50	185.762.57
2	Transfer Revenue	1.488.712.86	1.266.896.63	1.370.304.75	1.394.933.91	1.557.398.78
3	Other Revenue	56.777.52	62.888.22	65.074.16	837.57	344.28
B	Expenditure	1.520.505.69	1.654.090.43	1.639.582.07	1.695.342.78	1.853.290.67
1	Operating Expenditure	1.063.405.44	1.098.877.39	1.136.411.79	1.244.834.22	1.347.563.38
2	Capital Expenditure	255.820.33	399.904.10	313.035.75	247.901.21	283.172.15
3	Unexpected Expenditure	11.856.60	11.856.60	1.051.45	569.82	425.85
4	Transfer	201.279.92	203.452.34	189.083.10	202.037.53	222.129.30
	Surplus/Deficit	(180.678.17)	(178.914.97)	(45.061.038.33)	(107.650.791.19)	(109.785.043.70)

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency

Based on the table, it can be explained that the realization of APBD revenue shows a fluctuating trend, with increases and decreases each year—Rp 1,701,183,861,075.04 in 2019, decreasing to Rp 1,475,175,460,397.77 in 2020, then rising again in 2021 and 2022, reaching Rp 1,743,505,629,841.41 in 2023.

Total revenue also fluctuates, with similar trends. The details include:

- Local Revenue increased from Rp 155,693,478,613.31 in 2019 to Rp 185,762,566,874.41 in 2023, with fluctuations in between.

- Transfer Revenue increased from Rp 1,488,712,862,461.73 in 2019 to Rp 1,557,398,778,746 in 2023.
- Other legitimate income decreased significantly from Rp 56,777,520,000 in 2019 to a very small amount of Rp 344,284,258 in 2023 after rising in 2021.

Expenditure generally increased from Rp 1,520,505,690,317.21 in 2019 to Rp 1,853,290,673,541.40 in 2023, including:

- Operational expenditures rising from Rp 1,063,405,436,434.15 in 2019 to Rp 1,347,563,377,514.40 in 2023.
- Capital expenditures fluctuating, with a significant increase in 2020 to Rp 399,904,096,673.29, then decreasing afterward.
- Unexpected expenditures decreased from Rp 11,856,600,000 in 2019 and 2020 to Rp 425,850,000 in 2023.
- Transfers slightly increased from Rp 201,279,919,700 in 2019 to Rp 222,129,299,801 in 2023.

The deficit was quite large each year, with Rp 180,678.17 in 2019, Rp 178,914.94 in 2020, Rp 45,061,038.33 in 2021, Rp 107,650,791.19 in 2022, and slightly improved to Rp 109,785,043.70 in 2023. Despite increasing revenues, expenditures also rose, leading to significant deficits, especially in 2021 and 2022, indicating the need for better financial management to reduce reliance on loans or external funding sources for a healthier financial position in the future.

The financial performance analysis of Pelalawan Regency in this study is a process of assessing the progress of the implementation of activities in Pelalawan Regency's financial sector from 2019 to 2023. The ratios used by the researcher are: Regional Financial Independence Ratio, PAD Effectiveness Ratio, and Fiscal Decentralization Degree Ratio.

Data used for this research are from the Regional Budget Realization Reports obtained from the Pelalawan Regional Financial Management and Asset Agency (BPKAD). From this data, the financial performance of Pelalawan can be determined. The results of the ratio analysis are:

Regional Financial Independence Ratio can be seen in the table below:

Table 3. Calculation of the Regional Financial Independence Ratio

Year	Source evenue (Rp)	Transfer Grants (Rp)	RKKD (%)	Relationship Pattern
2019	155.158.906.702,15	1.373.924.074.941,00	11,30	Instructive
2020	148.682.087.597,96	1.243.785.983.000,00	11,95	Instructive
2021	196.779941.464,00	1.334.381.043.000,00	14,75	Instructive
2022	248.871.591.795,00	1.433.298.796.615,00	17,36	Instructive
2023	301.457.515.202,00	1.649.696.178.111,00	18,27	Instructive

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed), Fiscal Year 2019–2023

The independence and financial capability of the region remain low from 2019 to 2023, despite slight increases each year. The pattern indicates that the local government still heavily depends on directives from the central government and is not yet financially independent. The average regional independence is around 14.73%, indicating the need to improve financial capacity and independence.

Table 4. Level of Regional Financial Independence Ratio of Pelalawan Regency

Year	Independence	Regional Financial Capacity	Relationship Pattern
2019	11,30	Extremely Low	Instructive
2020	11,95	Extremely Low	Instructive
2021	14,75	Extremely Low	Instructive
2022	17,36	Extremely Low	Instructive
2023	18,27	Extremely Low	Instructive
Average	14,73	Extremely Low	Instructive

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The data shows that PAD of Pelalawan increased from Rp 15,158,906,702.15 (11.30% of total revenue) in 2019 to Rp 301,457,515,202 in 2023, with consistent growth over the years.

PAD Effectiveness Ratio

Table 5. Calculation of the Local Own-Source Revenue (PAD) Effectiveness Ratio of Pelalawan Regency for Fiscal Years 2019–2023

Year	PAD Realization (Rp)	Source Revenue Budget (Rp)	REPAD (%)	Criteria
2019	155.693.478.613,31	155.158.906.702,15	100,34	Effective
2020	145.390.617.242,78	148.682.087.597,96	97,79	Ineffective
2021	159.142.130.790,35	196.779.941.464,00	80,87	Ineffective
2022	191.920.502.909,37	248.871.591.795,00	77,12	Ineffective
2023	185.762.566.837,41	301.457.515.202,00	61,62	Ineffective

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed), Fiscal Year 2019–2023

Realisasi PAD (Local Revenue realization) fluctuated from 2019 to 2023. In 2019, realization reached 100.34% of the budget, indicating effectiveness.

However, from 2020 onward, the realization was below the target, with a ratio below 100%, indicating less effective collection of PAD and potential revenue shortfalls.

Table 6. Level of Local Own-Source Revenue (PAD) Effectiveness Ratio of the Government of Pelalawan Regency

Year	Financial Effectiveness Ratio	Financial Effectiveness
2019	100,34	Effective
2020	97,79	Ineffective
2021	80,87	Ineffective
2022	77,12	Ineffective
2023	61,62	Ineffective
Average	83,55	Ineffective

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The PAD Effectiveness Ratio was 83.55%, suggesting that the region's ability to optimize its revenue potential is still ineffective, which contradicts the basic principles of agency theory where the agent (local government) should produce outcomes expected by the principal (public).

Fiscal Decentralization Degree Ratio

Table 7. Calculation of the Fiscal Decentralization Degree (FDD) Ratio of Pelalawan Regency for Fiscal Years 2019–2023

Year	Local Own-Source Revenue (Rp)	TPD (Rp)	DDF (%)	Financial Capacity
2019	132.530.000.000,00	1.549.540.000.000,00	8,55	Very Poor
2020	148.682.087.597,96	1.455.238.355.754,96	10,22	Poor
2021	196.779.941.464,00	1.595.482.990.716,00	12,33	Poor
2022	248.871.591.795,00	1.682.726.360.465,00	14,79	Poor
2023	301.457.515.202,00	1.951.653.693.313,00	15,45	Poor

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed), Fiscal Year 2019–2023

The PAD from 2019 to 2023 showed significant increases but remained in the low capability category. The DDF (Debt Determination Factor) increased from 8.55% to 15.45%, indicating a rising debt burden relative to financial capacity. Overall, the financial condition remains insufficient to fully bear current financial burdens.

Table 8. Level of Fiscal Decentralization Degree Ratio

Year	Fiscal Decentralization Degree Ratio	Fiscal Decentralization Degree
2019	8,55	Very Poor
2020	10,22	Poor
2021	12,33	Poor
2022	14,79	Poor
2023	15,45	Poor
Average	12,51	Poor

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The FDDR ratio of only 12.51% confirms that the level of financial independence and resource management is still weak, leading to suboptimal regional autonomy in line with fiscal decentralization theory.

Regional Financial Efficiency Ratio

Table 9. Calculation of the Regional Financial Efficiency Ratio of Pelalawan Regency for Fiscal Years 2019–2023

Year	Realization of Regional Expenditure (Rp)	Realization of Local Government Revenue (Rp)	REKD (%)	Criteria
2019	1.520.505.690.317,21	1.701.183.861.075,04	89,38	Fairly Efficient
2020	1.654.090.429.455,90	1.475.175.460.397,77	112,13	Inefficient
2021	1.639.582.070.034,63	1.594.521.031.700,36	102,83	Inefficient
2022	1.695.342.779.384,30	1.587.691.988.191,37	106,78	Inefficient
2023	1.853.290.673.541,40	1.743.505.629.841,41	106,30	Inefficient

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed), Fiscal Year 2019–2023

From 2019 to 2023, only 2019 showed efficient financial management. The last four years (2020–2023) indicate inefficiency, as expenditures consistently exceeded revenues. This highlights the need for better expenditure control, planning, and resource utilization efficiency.

Table 10. Level of Regional Financial Efficiency Ratio of Pelalawan Regency

Year	Regional Financial Efficiency Ratio	Criteria for Regional Financial Efficiency
2019	89,38	Quite Efficient
2020	112,13	Not Efficient
2021	102,83	Not Efficient
2022	106,78	Not Efficient
2023	106,30	Not Efficient
Average	103,48	Not Efficient

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The RFER of 103.48% indicates inefficient expenditure allocation, contrary to the principles of effectiveness and efficiency in agency theory.

Compatibility Ratio

Table 11. Calculation of Compatibility Ratio by BPKAD Pelalawan Regency for Fiscal Years 2019-2023 (Operational Expenditure)

Year	Operational Expenditure Realization (Rp)	Total Regional Expenditure (Rp)	Operational Expenditure Ratio (%)
2019	1.063.405.436.434,15	1.520.505.690.317,21	69,94
2020	1.098.877.388.617,61	1.654.090.429.455,90	66,43
2021	1.136.411.786.555,98	1.639.582.070.034,63	69,31
2022	1.244.834.224.470,30	1.695.342.779.384,30	73,43
2023	1.347.563.377.514,40	1.853.290.673.541,40	72,73
Average			70,36

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The average operational expenditure ratio was 70.36%, starting at 69.94% in 2019, decreasing to 66.43% in 2020, then increasing to 69.31% in 2021, and peaking at 73.43% in 2022 before slightly decreasing to 72.73% in 2023. The high operational expenditure dominance suggests a bureaucratic and consumptive budget structure.

Table 12. Compatibility Ratio Levels of BPKAD Pelalawan Regency for Fiscal Years 2019-2023 (Capital Expenditure)

Year	Capital Expenditure Realization (Rp)	Total Regional Expenditure (Rp)	Capital Expenditure Ratio (%)
2019	255.820.334.183,06	1.520.505.690.317,21	16,82
2020	339.904.096.973,29	1.654.090.429.455,90	20,55
2021	313.035.735.430,65	1.639.582.070.034,63	18,92
2022	247.901.212.292,00	1.695.342.779.384,30	15,12
2023	283.172.146.226,00	1.853.290.673.541,40	16,70
Average			17,27

Source of Data: Regional Financial and Asset Management Agency (BPKAD) of Pelalawan Regency (processed)

The low capital expenditure ratio (17.62%) indicates the budget focus is not primarily on long-term development or public investment, which should be prioritized for sustainable welfare improvement aligned with decentralization and development principles.

CONCLUSION

Based on these ratios, it can be concluded that the agency function implemented by Pelalawan Regency's government has not been optimal from 2019 to 2023. The low PAD effectiveness, poor budget efficiency, and minimal capital expenditure indicate that the government has not yet fulfilled its mandate transparently and accountably according to agency theory principles.

There is a need to strengthen fiscal accountability, improve budget governance, and enhance development commitments to optimize the agency relationship between government and society.

Overall, the decentralization of fiscal resources in Pelalawan remains weak, with low financial independence, minimal PAD contribution, and a dominance of operational expenditure, showing dependence on central government.

Strategies to increase PAD, improve expenditure efficiency, and prioritize development are necessary to achieve true fiscal decentralization.

The local government must optimize revenue potentials. Strong initiative and commitment are required to increase PAD through systematic, periodic, and sustainable tax and retribution enforcement, along with supervision to prevent revenue leakage. The government should also explore alternative funding sources, including cooperation programs with private parties and increasing PAD. Reducing dependence on central government aid is also recommended.

To reflect agency theory and fiscal decentralization in practice, Pelalawan should:

- Strengthen local revenue base (PAD).
- Improve planning and budget control quality.
- Formulate development-oriented and community-beneficial expenditure policies.

Future researchers are encouraged to explore more in-depth analysis of regional financial performance using additional ratios for more reliable and comprehensive results. The current study is limited to Pelalawan Regency; future research should encompass a broader scope.

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