

Analysis of Regional Financial Performance of Batu City during the Covid Pandemic Transition 19

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Abstract

This study aims to see how the financial performance of the stone city region after the transition of the covid 19 pandemic where this type of research is descriptive quantitative research and the sample used is data on the realization of the stone city APBD for 2020-2022 which can be obtained at DJPK using 3 regional financial ratios the results show that the ratio of the degree of destructiveness is still very low, meaning that the ability of the region in regional autonomy is very small. role, while the results of the regional financial independence ratio are still consultative in nature, meaning that the role of the central government has been reduced but needs to be increased so that participatory development is achieved, finally the results of the effectiveness of PAD are still less effective in exploring the potential of PAD where the ratio has not exceeded 100%.

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1. Introduction

Regional autonomy, which provides authority from the Central Government to the Regional Government, has been able to create a wider space for Regional Governments to explore the potential in their regions. The granting of autonomy is based on the birth of Law Number 22 of 1999 concerning Regional Government, precisely January 1, 2001 as a momentum for the process of shifting delegation from centralization to decentralization orientation. The emergence of the law made the decentralization process increase, centralization decreased with the emergence of the Act emphasizing a larger portion of decentralization than centralization in the process (Maranjaya, 2018). The transition from centralization to decentralization has become a significant focus in managing administrative systems, with experts unanimously supporting the implementation of decentralization as the centralized model does not meet the requirements of reform (Banerjee, 2022). The debate on centralization and decentralization in economic processes has been ongoing, with various perspectives on the role of government in economic activities and the structure of authority versus information (Abed & Mohammed, 2020).

Law No. 22/1999 confirms the transfer of functions, personnel, and assets from the central government to provincial, district and city governments. In this case, there are additional powers and responsibilities devolved to local governments so as to bring to life an era of broader and more responsible decentralization emphasizing the universality of local self-government throughout the country as well (Hoesein et al., 2022). The enactment of Law No. 22/1999 has paved the way for the implementation of public sector reform in Indonesia. The dimension of reform is not only a change in the format of institutions but also includes a variety of reform tools used in supporting the running of public institutions in an economical, efficient, effective, transparent and accountable manner. Achieving the desired reform goal of establishing good governance involves overcoming challenges in the bureaucratic system. Transparency and citizen

empowerment through accessible information are important aspects in fostering better relationships between government, business and the public (Pratiwi et al., 2022). Overcoming normative challenges and instigating leadership mindset change and employee commitment are essential for significant change towards good governance (Parawu, 2013).

One of the focal points of regional autonomy is fiscal decentralization, which aims to create regional independence based on regional resources. Fiscal authority is based on the emergence of several laws and regulations, including: (i) Law No. 25 of 1999 on Financial Balance between Central and Local Governments; (ii) Law No. 32 of 2004 on Local Government; (iii) Law No. 33 of 2004 on Financial Balance between Central and Local Governments; and (iv) Government Regulation No. 58 of 2005 on Local Financial Management. These laws and regulations were the beginning of the implementation of performance-based budgeting. The implementation of regional autonomy has led to changes in the governance of regional financial management from traditional budgeting to performance budgeting (Yudartha et al., 2015). The granting of regional autonomy will increase regional development activities, where the greater the regional needs, the greater the budget will be needed to meet regional needs (Mardiasmo, 2021). However, these funds are not all charged to the Regional Government (Hirawan, 1986). This indicates that local governments must have the knowledge capacity to organize and manage local financial management so that development results can be optimized.

Regional financial performance analysis is one of the instruments to measure how the Regional Government is able to manage its regional finances (Khusaini, 2018; Sopanah et al., 2023). Analysis of regional financial performance is carried out on the basis of calculating various kinds of ratios that can be used in seeing the regional financial capacity both in terms of revenue and expenditure of the APBD. The ratio used is an appropriate measure to see the ratio of the degree of decentralization, the ratio of regional independence, the ratio of regional dependence, and the ratio of PAD effectiveness (Melmambessy, 2022).

One of the factors that support the progress of a region is the availability of adequate financing, including PAD (Regional Original Revenue) (Yakub et al., 2022). PAD aims to provide authority to the Regional Government to fund the implementation of regional autonomy in accordance with the potential of the region (Susanto et al., 2020). Effective management of regional autonomy through PAD can lead to progress and prosperity for the community, as it enables public participation, the collection of responsibilities for welfare, and the prevention of abuse of power (Putri & Adi, 2022). PAD can be a measure of the independence of a region. One of the regions in East Java that strives to continue to increase fiscal independence through extracting PAD is Batu City. Historically, Batu City has freed itself since 2001 to carry out regional autonomy, so that it has the authority to manage government households as broadly as possible, including the preparation of the regional revenue and expenditure budget draft. After liberating itself as an autonomous region, Batu City designed the preparation of regional revenue and expenditure budgets based on PAD with the orientation to create governance efficiency.

The majority of Batu City's revenue comes from the industrial sector and tourism activities, including hotels, restaurants, entertainment venues, and others. Batu City is a leading producer of the tourism sector in East Java, so it is able to make a very significant contribution to PAD capacity. Tourism plays an important role in economic development in the region, whose contribution not only increases regional income but also the economy of the community, especially MSME players whose businesses are highly dependent on the tourism sector (Hanim et al., 2021).

With the emergence of Covid-19, the industrial sector, especially tourism, has weakened due to the large-scale social restriction policy which has an impact on the decline in market demand. This problem has resulted in a variety of leading sectors having to limit and even close their businesses. The Covid-19 issue not only affects the income of businesses in Batu City, but also affects the decline in revenue obtained by the Regional Government due to the disruption of tax and levy revenues to support PAD capacity. Based on these issues, this study aims to see how regional financial performance is represented by the contribution of the tourism sector in Batu City. This objective is very important to see how regional financial performance during the Covid-19 transition period as a condition that greatly affects the economy. Research objectives are needed to strengthen the argumentation of how the theory of fiscal governance can be strengthened in conditions of extreme economic change such as in the Covid-19 case.

2. Methods

This research is based on the analysis of the Batu City APBD (Regional Revenue and Expenditure Budget) report which refers to the Batu city APBD Realization report 2020-2022. The Batu City APBD realization report data is used to see how the Batu City regional financial performance is using three types of ratio analysis, namely: (i) Decentralization Degree Ratio; (ii) Independence Ratio; and (iii) Effectiveness Ratio. The four ratios describe how the condition of Batu City's regional financial performance after the transition of the Covid-19 pandemic.

The data collection method in this study adopted a closer document-based data collection (secondary data) (Nazir, 2003). Document collection on the Batu City Regional Government is supported by data from the Directorate General of Fiscal Balance, Ministry of Finance through its website DJPK.go.id. The data needed is related to data on the realization of the Batu City APBD for 2020-2022. The stages of analysis carried out in this study are to look at the three types of ratios using secondary data processed in excel data. The next stage is to calculate the formula using the three types of ratios used in this study.

3. Results and Discussion

Analysis of the Degree of Decentralization

The degree of decentralization is a reflection of how much regional financial capacity is in financing its activities, the measurement of which is calculated by comparing the amount of PAD with total regional income. This ratio shows the contribution of PAD to regional income, so it is very representative to see the degree of regional fiscal independence (Digdowiseiso, 2023). The more independent, the local government is considered capable of managing its local finances well, and vice versa. The degree of decentralization is also interpreted that the higher the PAD contribution, the higher the ability of the local government to carry out decentralization (Patiroi, 2020). The criteria for the ratio of the degree of regional decentralization can be divided into four criteria, namely very good, good, less good, and not good.

Table 1. Regional Decentralization Degree Ratio Criteria

Decentralization Capabilities	Decentralization Degree Ratio (%)
Very Good	>50
Good	25 - 50
Less Good	10 - 25
Not Goos	<10

Source: Data Processed (2024)

The calculation of the Batu City decentralization degree ratio for 2020-2022 produces several explanatory parts, namely PAD realization, regional income realization, and the findings of the decentralization degree ratio.

Table 2. Calculation of Degree of Decentralization Ratio

Year	PAD Realization (Rupiah)	Regional Income Realization (Rupiah)	Decentralization Degree Ratio (%)
2020	136.766.373.974	893.038.839.330	15,31%
2021	147.007.052.561	969.962.352.371	15,16%
2022	201.774.960.017	920.583.299.786	22,00%

Source: Data Processed (2024)

The results of the analysis of the ratio of the degree of decentralization of Batu City in 2020 are categorized as not good in implementing decentralization. This problem can be caused by the presence of Covid-19 which results in sources of PAD being less optimally absorbed. In 2021, the spread of Covid-19 has actually started to decrease relatively, but the ability of the degree of

decentralization of Batu City is still relatively low at 15.16%. This condition reflects that the Local Government is still not optimal, especially in management related to optimizing sources of local revenue sources during the transition period of the Covid 19 pandemic. In 2021, the actual economic conditions are also not fully said to be stable because of the limited opening of economic access.

In 2022, the increase in the degree of decentralization of Batu City has actually begun to be felt, where the value is 22%. Many sectors are already accessible to the community, especially the tourism sector, which results in more optimized PAD management space. The type that contributes the most to Batu City's PAD comes from entertainment and restaurant taxes. Although there is a significant increase in 2022, the ratio of the degree of decentralization is still 22%, so it is still categorized as low, especially in the context of the ability of regions to carry out regional independence. Regions still need the ability to independently implement fiscal decentralization, and there needs to be optimal planning in increasing various sources of PAD that contribute to development and community welfare (Yuliani, 2019).

Regional Financial Independence Ratio Analysis

Regional financial independence is the ability of regional finances to finance themselves from government activities, development and services to the people who have paid taxes and levies as a source of income needed by the region (Al-Shatti, 2014). Regional independence is addressed by the size of PAD compared to regional income derived from other sources, for example, studies in various areas of Bandung City highlight the importance of PAD in determining regional financial autonomy (Novianti & Ishak, 2022). research on various local governments shows that general allocation funds, special allocation funds, and revenue sharing funds have an impact on regional financial independence, while local revenue has no significant effect (Adhim et al., 2023).

The criteria for the regional financial independence ratio are divided into four categories, namely high, medium, low and very low. Based on the calculation of the regional financial independence ratio, it is known that the Batu City government's ability to self-finance government activities, development and services to the community in 2020-2022 is categorized as consultative. This category represents that the interference of the central government has begun to decrease, because the regions are considered a little more capable of implementing regional autonomy, with details in 2020 amounting to 23.11%, in 2021 amounting to 18.28%, and in 2022 amounting to 28.01%.

Table 3. Interval Scale of Regional Financial Independence

Financial Capability	Regional Financial Independence Ratio (%)	Relationship Pattern
Very Low	0 - 25	Instructive
Low	25 - 50	Consultative
Medium	50 - 75	Participative
High	75 - 100	Delegative

Source: Data Processed (2024)

Table 4. Regional Financial Independence Ratio of Batu City in 2020-2022

Year	PAD Realization (Rupiah)	Regional Income Realization (Rupiah)	Decentralization Degree Ratio (%)
2020	136.766.373.974	591.923.391.759	23,11%
2021	147.007.052.561	804.342.808.810	18,28%
2022	201.774.960.017	718.808.339.769	28,01%

Source: Data Processed (2024)

The calculation results show that Batu City needs to increase the variety of sectors that are able to contribute to PAD and provide a variety of participatory spaces to various parties. This step is expected to optimize the ratio of regional financial independence. The findings emphasize that the ratio of regional financial independence must be a benchmark and reference as an indicator to see a reflection of regional financial performance (Wahyu et al., 2022). Assessment

indicators are needed to explore potential resources, challenges, and strategies that can be prepared by the Regional Government (Ronal & Massua, 2022).

PAD Effectiveness Ratio (Regional Original Revenue)

The PAD effectiveness ratio describes the ability of the Local Government to realize the planned PAD compared to the realized target based on the real potential of the region (Yuliana et al., 2018). The calculation results show that the PAD effectiveness ratio obtained by the Batu City Regional Government during 2020-2022 tends to increase even though it is not optimal because it is less in accordance with the PAD target planning.

In 2020, the PAD effectiveness ratio was 66%, then in 2021 it was 73.50%, and in 2022 it was 99%. All average calculation results are categorized as less effective, although in 2022 they have entered the effective category. These results reflect the need for optimization in overcoming external shock issues such as the impact of the Covid-19 pandemic and managing the transition period so that the excavation of PAD sources can be further optimized. Extracting PAD needs to pay attention to external conditions both in the context of planning and anticipatory steps that can be taken by the Regional Government.

Table 5. Criteria for PAD Effectiveness Ratio

Financial Ability	PAD Effectiveness Ratio (%)
Very Effective	>100
Effective	90 - 100
Quite Effective	80 -90
Less Effective	60 - 80
Not Effective	≤60

Source: Data Processed (2024)

Table 6. Effectiveness ratio of own-source revenue

Year	PAD Realization (Rupiah)	PAD Target (Rupiah)	Decentralization Degree Ratio (%)
2020	136.766.373.974	207.025.000.000	66,00%
2021	147.007.052.561	200.000.000.000	73,50%
2022	201.774.960.017	203.318.424.547	99,00%

Source: DJPK Data Processed (2024)

The calculation results strengthen the argument that the PAD effectiveness ratio is indispensable, especially in strengthening government public service activities, strengthening development performance, and improving community welfare, the source of which comes from regional fiscal capacity. If local fiscal capacity is insufficient, a fiscal gap occurs, which can then be met from external sources such as local loans and central government financial transfers, both of which can weaken local fiscal independence (Cordes et al., 2015). However, fiscal decentralization is implemented to achieve at least two main objectives, namely: (i) to achieve a high degree of fiscal equity vertically; and (ii) to achieve a high degree of fiscal equity horizontally (Afandi & Afandi, 2018). The vertical objective is intended to achieve fiscal equity between the central and local governments. Meanwhile, horizontally, it aims to achieve fiscal equity between autonomous regions.

4. Conclusion

The results of the analysis of the regional financial performance of the three ratios used in viewing regional financial performance show that the ratio of the degree of decentralization in Batu City shows that it is still relatively very low. This interval reflects a poor ability to manage PAD. Furthermore, the ratio of regional financial independence shows that the Batu City Government's ability to self-finance government activities, development and services to the community in 2020-2022 is categorized as consultative. This category reflects that the central government's intervention has begun to decrease, because the regions are considered a little more capable of implementing regional autonomy. These results show that Batu city's regional

development pattern is not yet fully participatory. Evaluation is still needed in its regional independence ratio. The last is the PAD effectiveness ratio, where the ratio results show that it is not effective. PAD revenue does not exceed 100%, which means that in terms of PAD revenue it needs to be increased. Increasing PAD is crucial considering that the low PAD is due to the transition of the covid 19 pandemic which results in not optimizing the excavation of PAD sources.

The results show that to achieve a high level of fiscal equity, it basically depends on the condition of fiscal capacity on one side, and the condition of fiscal needs on the other side. Thus, a special formula is needed that is designed so that the needs of regional development are not neglected. Mistakes in applying the fiscal equalization formula will cause regional fiscal rights to be ignored. Therefore, whatever formula is used, it must meet the criteria for effective fiscal management, especially focused on PAD governance. The criteria must fulfill a sense of justice, namely that fiscal governance must be positively/directly related to regional fiscal needs and be able to respond to regional fiscal capacity.

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