

Analysis Of The Financial Performance Of The Regional Government Based On The Independence Ratio, Effectiveness Ratio, And Efficiency Ratio In The City Of Surabaya

Jessica Dwi Yolanda Pandiangan¹⁾, Lisma Aina²⁾, Galih Supraja³⁾
^{1,2,3,4)} Department of Accounting, Universitas Pembangunan Panca Budi

*Corresponding Author
Email : galih@dosen.pancabudi.ac.id

Abstract

This research aims to conduct an in-depth evaluation of the financial performance of the Surabaya City Government during the 2022–2024 fiscal period. Using a quantitative descriptive approach, the analysis is focused on secondary data sourced from the Budget Realization Report (LRA) and official regional financial statements. Fiscal performance measurement is mapped through five strategic indicators: effectiveness ratio, efficiency ratio, fiscal independence ratio, spending activity, and revenue and expenditure growth trends. In general, the financial governance of the Surabaya City Government is in the category of healthy and independent. Nevertheless, fluctuations in financial growth and the high dominance of operational spending are critical notes that require attention. Local governments are advised to restructure the allocation of expenditure by increasing the portion of capital expenditure in order to optimize infrastructure development and the quality of public services in a sustainable manner.

Keywords: *Financial Performance, Effectiveness Ratio, Efficiency Ratio*

INTRODUCTION

Fiscal accountability is a fundamental pillar in realizing clean, transparent, and public-oriented governance. Regional financial performance is not just an instrument of administrative record-keeping, but a tangible reflection of the government's capacity to optimize financial resources in order to stimulate economic development and meet the needs of the wider community. Sound budget management directly contributes to regional macroeconomic stability, improving the quality of public services, and strengthening regional competitiveness.

Along with the increasing critical public awareness of budget transparency, the public sector is required to present financial reports that are not only administratively valid, but also informative. The local government's financial statements essentially contain a portrait of the financial position, budget realization, and performance achievements in a certain period cycle. However, the normative figures in the report will not be rich without an interpretive analysis method that is able to explore the real conditions behind these budget posts.

One of the scientific instruments tested in dissecting the financial health of the public is financial ratio analysis. This technique evaluates performance by comparing the logical relationships between posts in the financial statements. In the government sector, this analysis plays a crucial role in measuring the level of fiscal independence, the effectiveness of regional revenue collection, the efficiency of expenditure allocation, and the dynamics of budget growth from year to year.

The implementation of this assessment provides high urgency because it functions as an evaluation instrument for stakeholders, both executive, legislative, and civil society. According

to Johnsen (2019), auditing and analyzing public sector performance are recognized as a stepping stone in encouraging good governance, strengthening transparency, and ensuring the efficient use of public resources. Through comprehensive ratio analysis outputs, fiscal policy formulation, future budget planning, and evaluation of macro work programs can run based on accurate data (evidence-based policy).

Theory Stewardship

Stewardship Theory initiated by Lex Donaldson and James H. Davis (1991) views managerial executors not as selfish and individualistic actors, but as stewards who have an inherent commitment to align their personal vision with the organization's grand goals.

In the realm of public governance, this theory positions the government as a steward (public servant) who holds the full mandate of integrity and integrity to manage public wealth. On the other hand, the community acts as the principal (owner of capital/sovereignty). Based on this premise, the bureaucracy is assumed to move not on the basis of personal utilitarian motives, but to optimize the welfare of the collective community and realize ideal governance (good governance).

Government Financial Performance

The financial performance of the public sector represents the level of success of agencies in managing their financial rights and obligations in order to achieve development targets, public services, and improving people's living standards. This indicator captures the extent to which local governments are able to prepare plans, execute expenditures, carry out internal controls, and account for budget absorption in accordance with the applicable regulatory corridors. Munawir emphasized that financial performance is an analytical review of the financial condition of an organization that is dissected using certain financial instruments, so that conclusions can be drawn about whether or not the financial posture of the entity is healthy.

Fiscal Independence Ratio

The fiscal independence ratio measures the degree of ability of local governments to fund operational activities, infrastructure development, and public services autonomously by relying on Regional Original Revenue (PAD). This ratio also indicates the level of dependence or fiscal dependence of the region on the flow of transfer funds from the central government and third-party loan sources.

Efficiency Ratio

This ratio measures the level of government frugality in spending the budget to obtain certain income. Through a comparison between the amount of inputs (expenditure costs) and outputs (realization of revenues or program results), this ratio provides an idea of whether regional managerial performance has minimized budget waste.

Effectiveness Ratio

The effectiveness ratio describes the ability of local governments to realize revenue targets or expenditure performance achievements that have been budgeted in advance. The higher the percentage of collections that approach or exceed the target ceiling, the more effective the organization's management performance can be categorized.

RESEARCH METHODS

This study applies a quantitative descriptive approach that integrates financial ratio, effectiveness ratio, and efficiency ratio analysis techniques to evaluate the financial posture of the Surabaya City Government. The data used are entirely secondary and collected through scientific documentation studies, including accredited national journals and the official Budget Realization Report (LRA) of the Surabaya City Government. Data validation is strictly maintained by prioritizing aspects of relevance, source credibility, and fiscal information updates.

Independence Ratio Analysis

Regional autonomy capacity is calculated by comparing the realization of PAD to the total central transfer funds or regional loans. The calculation flow is formulated as follows:

$$\text{Independence Ratio} = \text{Regional Original Income (PAD)} / \text{Central Transfer Fund} \times 100\%$$

The level of regional independence is then classified based on the following patterned relationship matrix:

Financial Ability	Independence Percentage	Relationship Patterns
Very Low	0% - 25%	Instructive
Low	25% - 50%	Consultative
Medium	50% - 75%	Participatory
Height	75% - 100%	Delegative

Effectiveness Ratio Analysis

The success rate of revenue realization is measured by a formula comparing revenue realization output to the set budget ceiling target:

$$\text{Effectiveness Ratio} = \text{Revenue Realization} / \text{Revenue Target} \times 100\%$$

According to Susanto (2019), this ratio reflects the expertise of local governments in mapping and optimizing the real potential of the revenue sector in their regions. Effectiveness criteria are measured through the following scale ranges:

Financial Performance Percentage	Effectiveness Criteria
Above 100%	Highly Effective
90% - 100%	Effective
80% - 90%	Quite Effective
60% - 80%	Less Effective
Less than 60%	Ineffective

Efficiency Ratio Analysis

Based on the Budget Realization Report analyzed in the initial draft, efficiency is calculated based on the comparison of the total realization of regional expenditure expenditure to the total expenditure budget (not the cost of acquisition to revenue), in order to measure the level of budget absorption economically (saving value).

Expenditure Efficiency Ratio = Expenditure Realization / Expenditure Budget x 100%

The efficiency rating scale is described through the following table:

Efficiency Percentage	Efficiency Criteria
>100%	Inefisien / Boros
90% - 100%	Less Efficient
80% - 90%	Quite Efficient
60% - 80%	Efficient
<60%	Highly Efficient

RESULTS AND DISCUSSION

Fiscal Independence Ratio Analysis

The following is a visualization of data on the development of fiscal independence of the Surabaya City Government

Year	PAD	Central Transfer	Percentage	Ability level
2022	5.314.695.257.794	3.476.613.421.688	152.87%	Delegative
2023	5.771.818.530.453	3.832.961.233.953	150.58%	Delegative
2024	6.114.385.907.599	3.920.062.347.953	155.98%	Delegative

Based on the table above, the performance of the City of Surabaya's financial independence during the period 2022-2024 is at a very excellent level. In 2022, the ratio touched 152.87%, reflecting that PAD's contribution far exceeded the supply of central transfer funds, which placed this area on a pattern of Delegative relations. Although it had experienced a slight correction to 150.58% in 2023, the independence of the city of Surabaya remains strong in the delegative zone. The positive trend will continue again in 2024 with a surge in ratios of up to 155.98%. This marker figure proves that the City of Surabaya has escaped from the acute dependence of the central fiscal and is very independent in financing its regional development programs.

Revenue Effectiveness Ratio Analysis

This ratio highlights the management's ability to execute regional revenue targets in real terms.

Year	Budget Realization	Budget Targets	Percentage (%)	Capabilities
2022	8,791,308,679,482.20	9,822,403,087,674.00	89.50%	Enough Effective
2023	9,604,779,764,405.37	10,723,824,846,149.00	89.56%	Enough Effective
2024	10,034,448,255,551.40	11,302,418,432,963.00	88.78%	Enough Effective

The track record of the effectiveness of revenue budget management in the city of Surabaya shows stable performance but requires special attention. Throughout the observation period 2022 to 2024, the revenue success ratio was consistently perched in the "Moderately Effective" zone. In 2022, the ratio was recorded at 89.50%, slightly boosted to 89.56% in 2023, and experienced a minor decrease in 2024 to a level of 88.78%. Although the accumulated realization has not been able to break through the ideal number above 100%, the performance of PAD collection is relatively well maintained. In order to boost performance in the future, optimization through the digitization of regional taxes and the intensification of new levy pockets is highly recommended.

Efficiency Ratio Analysis

The table below shows the efficiency of absorption of regional expenditure budget allocations:

Year	Realization of Spending	Budget	Percentage	Category
2022	9,448,236,778,683.50	10,636,827,593,321.00	88.83%	Enough Efficient
2023	9,543,590,902,934.50	10,821,334,252,595.00	88.19%	Enough Efficient
2024	9,998,040,835,382.49	11,500,368,580,693.00	86.94%	Enough Efficient

Absorption efficiency analysis shows that average spending savings are stagnant in the range of 86%–89%, making it in the "Quite Efficient" classification. In detail, the spending ratio was at 88.83% in 2022, sliding down to 88.19% in 2023, and closing more efficiently at 86.94% in 2024. The low deviation in the savings figure shows that the absorption of bureaucratic operations still demands a relatively dominant portion of the budget when compared to the real output produced. Referring to the value for money philosophy, relevant agencies must start implementing cuts in non-priority secondary shopping posts to encourage more economical efficiency.

CONCLUSION

Comprehensively, the portrait of the financial performance of the Surabaya City Government throughout the 2022-2024 period represents a solid and independent fiscal condition. The three main conclusions of the evaluation of indicators can be summarized as follows.

Self-Reliance Ratio (Delegative Relationship): Demonstrates exceptional capacity (consistently above 150%). This proves that the APBD structure is firmly driven by PAD, minimizing external dependence on the center.

Effectiveness Ratio (Quite Effective): Stable is in the range of 88%–89%. The local government is considered consistent in trying to achieve regional revenue targets.

Efficiency Ratio (Quite Efficient): Being in the corridor of 86%–88%, signals that regional expenditure management is still absorbing large allocations of funds, so a policy to tighten the operational budget is needed so that financial governance is increasingly of high use value.

REFERENCES

- Abdullah, M. M. (2014). *Management and evaluation of employee performance* (B. Rahman, Judge, Ed.). Aswaja Pressindo.
- Fidellius. (2013). Ratio Analysis to Measure the Performance of Regional Financial Governance in Manado City. *EMBA Journal*, 1(4), 2088–2096.
- Regulation of the President of the Republic of Indonesia. (1999). *LAW OF THE REPUBLIC OF INDONESIA No. 22 of 1999*.
- Regulation of the President of the Republic of Indonesia. (2010). *Government Regulation of the Republic of Indonesia No. 71 of 2010*.
- Regulation of the President of the Republic of Indonesia. (2014). *LAW OF THE REPUBLIC OF INDONESIA NUMBER 5 OF 2014*.
- Rachmawati, T. (2023). ANALYSIS OF FINANCIAL PERFORMANCE IN THE SURABAYA CITY GOVERNMENT Nur Handayani, Indonesian College of Economics (STIESIA) Surabaya. *Journal of Accounting Science and Research*, 12.
- Susanto, H. (2014). ANALYSIS OF THE DEVELOPMENT OF REGIONAL FINANCIAL PERFORMANCE IN AN EFFORT TO SUPPORT THE IMPLEMENTATION OF REGIONAL AUTONOMY IN WEST NUSA TENGGARA PROVINCE. *Faculty of Economics Open University*.
- Susanto, H. (2019). *ANALYSIS OF FINANCIAL RATIOS TO MEASURE THE FINANCIAL PERFORMANCE OF THE LOCAL GOVERNMENT OF MATARAM CITY* (Vol. 7, Issue 1).