

# An Analysis of Finance of Regional Government of North Halmahera Regency for 2009-2014 Budget Year

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## Abstract

Regional autonomy is defined as the granting of authority and obligations by the central government to regional administrators to regulate and manage government affairs and community interests on their own accord based on the aspirations of the community in accordance with applicable laws and regulations. The policy of fiscal autonomy and decentralization is an answer to the demands of the people who expect a change in all aspects of the life of the nation and state, where one of the important aspects of the implementation of regional autonomy that must be managed carefully is the problem of regional financial management and regional budgets. To realize broad, real and accountable regional autonomy, it is necessary to have regional financial management that is able to control regional financial policies economically, efficiently, effectively, transparently and accountably. This research was conducted in June 2016 in the Office of Regional Finance and Asset Management Board of North Halmahera Regency Government, aiming at analyzing the financial performance of North Halmahera Regency Government for the last five years (2009-2014). The research finds that (1) the region's mean financial performance is unstable; (2) several financial ratios still show positive and negative trends; (3) the regional financial independence level has not been stable since it still to some extent depends on external sources of fund, particularly from the central government; and (4) the performance of North Halmahera Regency Government has not been effective since its effectiveness and efficiency ratios have not been 1 (one) or 100 percent.

**Keywords:** Financial analysis, North Halmahera, Regional government performance

## 1. Introduction

The fiscal autonomy and decentralization policies constitute an answer to people's demand for a change in all aspects of life as a nation and a country. The government is expected to give solutions for improving services to the people. One of these solutions is to provide the regional government with extensive autonomy, which means to give more space for them to manage the resources available to them according to the local people's need priority (Djalil 2014: 21).

The consideration that underlie the need to perform regional autonomy is the development of events in both inside and outside the country. The condition inside the country indicates that the people long for transparency and decentralization. On the other hand, what happens outside the country indicate the increasingly expansive globalization which demand each country to improve their competitiveness, in this case this include its regional governments (Halim, 2007: 1). This competitiveness of regional government is expected to be achieved through the improvement of regional government decentralization. Furthermore, this improved regional government decentralization is expected to be reached through regional autonomy.

One of the important aspects in the implementation of regional autonomy which should be carefully regulated is the issue of managing regional finance and budget. Purnomo (2009: 2) suggests that to materialize the extensive, real, and responsible regional autonomy, a regional financial management capable of controlling the regional financial policies in an economic, efficient, effective, transparent, and accountable manner is needed.

The realization for regional expenditure of North Halmahera Regency in 2009 was Rp. 410,383,293,592.00 from what had been budgeted at Rp. 454,654,529,651.00, in 2010 its realized regional expenditure was Rp. 393,216,766,959.29 from what had been budgeted at Rp. 424,509,741,640.34, in 2011 its realized regional expenditure was Rp. 502,887,227,889.41 from what had been budgeted at Rp. 559,298,730,795.22, in 2012 its realization for regional expenditure was Rp. 550,447,751,224.04 from what had been budgeted at Rp.

632,815,123,212.96. In 2013, its realization for regional expenditure was Rp. 572,932,879,103.52 from what had been budgeted at Rp. 616,375,018,627.33, and in 2014 its realization for regional expenditure was Rp. 683,715,818,867.30 from what had been budgeted at Rp. 731,450,482,410.68. These indicate that the realized regional expenditure of North Halmahera Regency did not exceed the budget. The reasons as to why the researcher chose this Regency which had been decentralized in North Maluku Province was to see to what extent the regional government's ability in earning Locally Generated Revenue to finance its own expenditures related to expenditures for apparatus and development and its ability to serve the people and to fund its priority programs and projects.

The information presented above is still insufficient to depict the achievement of financial performance in North Halmahera Regency government within regional autonomy context. That description merely shows the comparison between the realization and the budget. It has not touched the analysis on the financial performance of North Halmahera Regency government. Meanwhile, an analysis on financial performance becomes an indicator in seeing whether or not the government successfully manages their finance. Additionally, an analysis of financial statements becomes a source of information for the people to judge the government's accountability in providing public services better.

Based on the background above, the writer is interested in conducting research in North Halmahera Regency in relation to the analysis of financial performance regional of this government as stated in this proposal entitled The Analysis of Finance of North Halmahera Regency Government in 2009-2014 Budget Year, aiming at analyzing the financial performance of North Halmahera Regency Government for the last five years (2009-2014) using the financial ratio indicators in the Local Regional Budget.

## **2. Methodology**

### **2.1. Research Site and Time**

This research was conducted in North Halmahera Regency Government, particularly at the Office of Regional Finance and Asset Management Board (BPKAD) and Local Development Planning Agency (BAPPEDA) of North Halmahera Regency in June 2016.

### **2.2. Method for Collecting Data**

The secondary data were obtained by collecting them from archives or documents related to the object being studied from the and Regional Finance and Asset Management Board (BPKAD) and Local Development Planning Agency (BAPPEDA) of North Halmahera Regency.

### **2.3. Method for Analyzing Data**

The methods for analyzing the data include descriptive analysis which was based on the description which supports the analysis. This analysis emphasized on the understanding of issues in social life based on holistic, complex, and detailed real-life condition or nature setting which is of explanatory nature in the form of description or sets of sentences. According to Widodo in Halim (2007: 267), a number of ratio analyses are available to measure local government's financial performance developed based financial data coming from APBD, including:

#### **2.3.1. Local (Financial) Independence Ratio**

The financial independence ratio was analyzed using the formula :

$$\text{Ratio Kemandirian} = \frac{\text{Pendapatan Asli Daerah}}{\text{Bantuan Pemerintah} \frac{\text{Pusat}}{\text{Provinsi}} \text{ dan Pinjaman}}$$

#### **2.3.2. Effectiveness and Efficiency Ratio of Locally Generated Revenue**

Effectiveness ratio was analyzed using the formula :

$$\text{Ratio Efectivity} = \frac{\text{Realization of Regional Income}}{\text{PAD revenue targets are set based on the real potential of the region}}$$

Furthermore, the efficiency ratio was analyzed using the formula :

$$\text{Efficiency ratio} = \frac{\text{Fee for PAD Collection}}{\text{Realization of revenue from PAD}}$$

### 2.3.3. Activity Ratio

The activity ratio was analyzed using the formula:

$$\text{Ratio of routine expenditure to APBD} = \frac{\text{Total routine purchases}}{\text{APBD Total}}$$

$$\text{Ratio of development spending to APBD} = \frac{\text{Total Development Expenditure}}{\text{APBD Total}}$$

### 2.3.4. Growth Ratio

The growth ratio was analyzed using the formula:

$$\text{Growth ratio} = \frac{\text{PAD Realization } X_{n-x_{n-1}}}{\text{Realization of acceptance } X_{n-1}}$$

$$\text{Growth ratio} = \frac{\text{Realized Growth } \sum \text{Income } X_{n-x_{n-1}}}{\text{Realized Growth } \sum \text{Income } X_{n-1}}$$

Note:

$X_n$  = Years included in calculation

$X_{n-1}$  = Previous years

## 3. Results and Discussion

### 3.1. Local Finance of North Halmahera Regency

The Regional Government Budget is a yearly financial plan of a regional government discussed and approved jointly by the regional government and local house of representatives (DPRD). It is then established with a local government regulation. This regional government budget is used by the regional government as the basis to implement programs and projects in the effort of providing services to its local people.

This Regional Government Budget preparation is the local government's budgeting process wherein it conceptually consists of formulating budget policy and planning budget operation. The preparation of general policy for Regional Government Budget belongs to budget policy formulation which serves as a reference in planning the budget operation. The budget policy formulation has something to do with fiscal analysis and the budget operation planning puts more emphasis on financial resources allocation.

In Law Number 25 Year 2004 concerning National Development Planning System, it is basically mandated that the national planning aims at ensuring the interrelatedness and consistency between planning, budgeting, implementation, control and monitoring. In order to realize this, the local government planning framework begins with planning the local government medium-term development which is then detailed each year through the preparation of work plan for regional government. In turn this work plan serves the function of a reference for preparing General Policy of Regional Government Budget (KUA). The approved KUA becomes a reference for preparing the ceiling and priority of budget and eventually it becomes a part of Local Government Department/Agency (SKPD) to prepare their Budget and Work Plan (RKA-SKPD). Preparing RKA-SKPD means allocating financial resources.

In general, the policy of managing five-year budget has been implemented under Government Regulation Number 58 Year 2005 concerning Local Government Financial Management and it is detailed further through the Ministerial Regulation of Home Affairs Number 13 Year 2006 and should an amendment is made to this government regulation towards a better Local Government Financial Management, then an adjustment should be done.

The general policy of regional government finance is highly dependent on the regional government's financial ability. The data on regional government's financial ability can be seen from their budget. The Regional Government Budget of North Halmahera Regency allocated for financing the government, social and local development works keep on increasing each year.

To figure out whether or not the Local Government Financial Management has succeeded as mandated in Law Number 17 Year 2003, an analysis will be conducted on the financial management of North Halmahera Regency government by applying financial ratio to the Regional Government Budget in 2009, 2010, 2011, 2012, 2013, and 2014.

### 3.2. Financial Independence Ratio of Regional Government

This financial independence ratio of Regional Government indicates the ability of North Halmahera Regency government in funding its governmental, development and service works to those people who have paid taxes and retributions as the source of revenues needed by the local government, as seen in Table 1

Tabel 1. Local (Financial) Independence Ratio for 2009 to 2014 Budget Year

Yaer	PAD Realitation	Central Gov. Trans	Contribution PAD
2009	15,181,573,627	398,601,889,193	0.038
2010	55,197,347,421	308,978,204,752	0.179
2011	106,242,475,596	425,112,161,812	0.250
2012	113,121,892,456	458,057,104,467	0.247
2013	103,330,459,759	481,202,386,438	0.215
2014	115,814,255,742	308,978,204,752	0.375
<b>SUM</b>	<b>508,888,004,601</b>	<b>2,380,929,951,414</b>	<b>0.214</b>
<b>Average</b>	<b>84,814,667,434</b>	<b>396,821,658,569</b>	<b>0.214</b>

Source : APBD Halut, 2016

Based on the calculation of (financial) independence ratio above, it can be seen that the regional government's ability in independently funding its governmental, development and public service works in 2009 to 2014 budget year was relatively low at on average 0.214%, which was less than 50%, i.e. in 2009 it was 0.038%, in 2010 it increased to 0.179%, in 2011 it increased to 0.250%, in 2012 it decreased to 0.247%, in 2013 it decreased to 0.215% and in 2014 it increased to 0.375%.

From the (financial) independence ratio calculation above, it can be seen that the (financial) independence ratio depict the local government's dependency for sources of fund on external parties, particularly the central government.

### 3.3. Effectiveness and Efficiency Ratio

Effectiveness ratio depicts the regional government's in realizing the the planned Locally Generated Revenue against the target set based on the local government's real potentials. The regional government's ability is said to be effective if the ratio it achieves is at least 1 (one) or 100 percent. The greater the effectiveness ratio, the more effective the local government's ability.

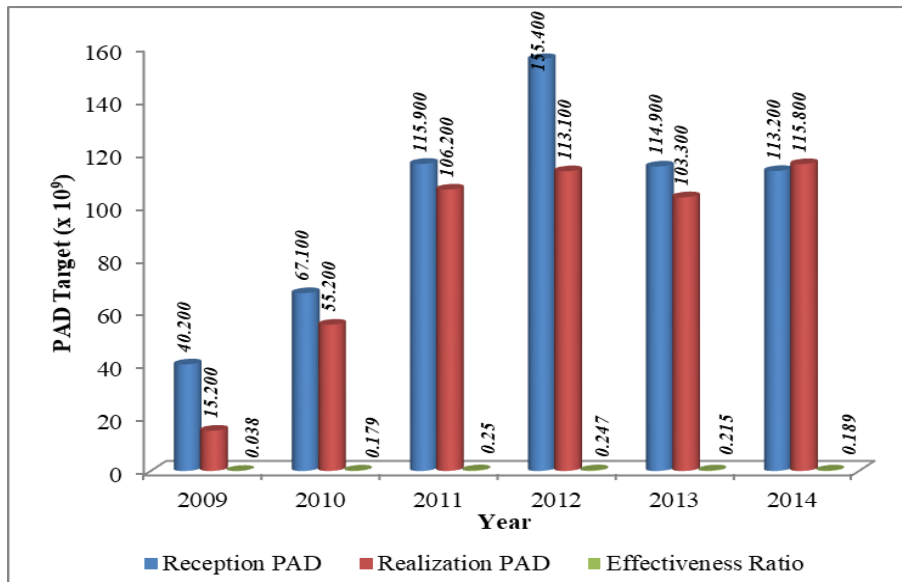


Figure 1. Report of PAD Target and Realization in 2009 to 2014 Budget Year

From the calculation of effectiveness ratio above, it could be seen that the effectiveness of Local Government Financial Management of North Halmahera Regency in 2009 to 2014 budget year was still poor, because the average PAD realization was 0.838, which was below 100%. In 2009 it was 0.038%, in 2010 it increased to 0.179%, in 2011 it increased to 0.250%, in 2012 it decreased to 0.247%, in 2013 it decreased to 0.215% and in 2014 it decreased to 0.189%, as seen in Figure 1

Based on the description of the low PAD realization generated by the North Halmahera Regency government, it is therefore expected that this regional government would work harder to increase its Locally Generated Revenue, by considering the development and improvement from agriculture, animal husbandry, fisheries, tourism, plantation, forestry sectors as well as the regional retribution as the prominent sources for PAD.

Next is efficiency ratio. This ratio depicts the comparison between the amount of costs spent to obtain revenue and the realized revenue received. The regional government's financial performance in collecting revenue is classified as effective when what is achieved is less than one or 100 percent. The lesser the efficiency ratio, the better the regional government performance would be.

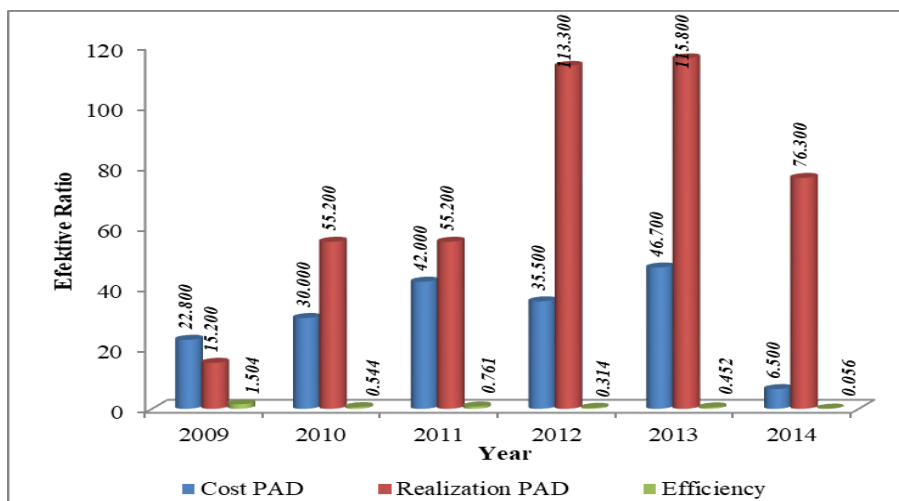


Figure 2. Calculation of Efficiency Level of Local Government Expenditure to Collect PAD in 2009 to 2014 Budget Year

From the calculation of efficiency ratio above, it can be seen that the efficiency level of North Halmahera Regency government in 2009 was 1.504%, in 2010 it increased to 0.544%, in 2011 it increased to 0.761%, in 2012 it decreased to 0.314%, in 2013 it increased to 0.452% and in 2014 it increased to 0.056%, as seen in Figure 2

Based on the description of relatively good efficiency ratio generated by the North Halmahera Regency government, it is expected that this regional government could improve its financial performance.

### 3.4. Activity Ratio

This ratio depicts how the regional government prioritizes its fund allocation to regular and development expenditures optimally. The higher the percentage allocated for regular expenditure, the lesser the percentage of investment (development) expenditure used to provide people’s economic facilities and infrastructure tend to be.

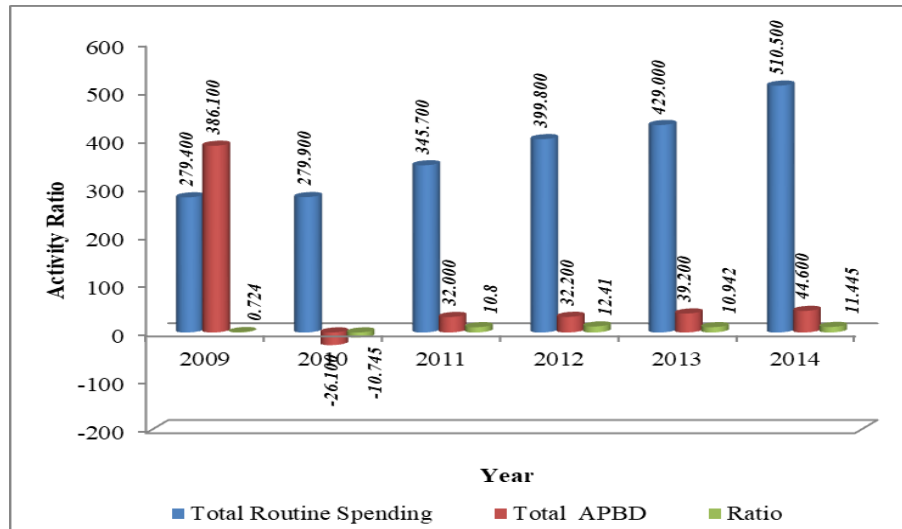


Figure 3. Ratio of Regular Expenditure to APBD of North HalmaheraTahun Regency Government in 2009 to 2014

From the calculation of regular expenditure above, it can be seen that the regular expenditure to North Halmahera Regency’s APBD can be classified as fairly good at an average of 4.417%. In 2009 it was 0.724%, in 2010 it became -10.745%, in 2011 it increased to 10.80%, in 2012 it increased to 12.410%, in 2013 it decreased to 10.942% and in 2014 it increased to 11.445%, as seen in Figure 3

From the ratio calculation above, it can be seen that most of the fund owned by the regional government were prioritized for regular expenditure, thus the development expenditure to APBD ratio was relatively still small.

Table 2. Development Expenditure to 2009-2014 North Halmahera Regency’s APBD Ratio

Year	Total Development Expenditures	Total APBD	Ratio
2009	114,558,898,014	386,129,566,071	0.297
2010	112,480,340,633	-26,055,648,150	-4.317
2011	156,847,351,258	32,023,586,624	4.898
2012	149,924,342,099	32,216,794,522	4.654
2013	143,509,351,979	39,206,278,553	3.660
2014	171,330,577,883	44,610,129,509	3.841
<b>SUM</b>	<b>848,650,861,866</b>	<b>508,130,707,129</b>	<b>1.670</b>
<b>Aver</b>	<b>141,441,810,311</b>	<b>84,688,451,188</b>	<b>1.670</b>

Source : APBD Halut, 2014

As seen in Table 2, the calculation of growth ratio above, it can be seen that North Halmahera Regency Government's financial performance from year to year was fairly low; its average growth was 1.670% which was below 100%. In 2009 it was 0.297%, in 2010 it decreased to -4.317%, in 2011 it increased to 4.898%, in 2012 it decreased to 4.654%, in 2013 it decreased further to 3.660% and in 2014 it increased to 3.841%.

From the ratio calculation above, it can be seen that the development expenditure to APBD ratio was relatively small since the regional government prioritized more its regular expenditure. North Halmahera Regency government ought to increase its development expenditure from its APBD as needed by their region.

### 3.5. Growth Ratio

Growth ratio measures to what extent the regional government is capable of maintaining and improving the success it has achieved from one period to the next. When the growth for each component of expenditure and revenue sources, it can be used to evaluate which potentials require attention.

From the calculation of growth ratio above, it can be explained that the growth of Regional Government Budget of North Halmahera Regency in 2009, 2010, 2011, 2012, 2013, and 2014 budget years showed fairly positive growth because the absorption of PAD in 2014 was greater, i.e. Rp.115,814,255,742 compared to those of previous years.

## 4. Conclusion

Financial ratio analysis is a tool that can be used to assess the performance of local governments in regional financial management as outlined in the APBD. Based on the analysis results discussed earlier, the financial performance of the North Halmahera district government shows that the average regional financial performance is still unstable. The results of calculations in each year still experience fluctuating numbers so that some financial ratios still show positive and negative trends. For the ratio of financial independence of the North Halmahera regency government up to 2014 shows the level of regional financial independence that has not been stable because there is still dependence on funding sources from external parties, especially the central government. Based on the results of calculations for the effectiveness and efficiency ratio, it shows that the performance of the North Halmahera district government has not been effective because the ratio of effectiveness and efficiency has not reached 1 (one) or 100 percent. In the measurement of the activity ratio, it can be seen that most of the funds owned by the government after the implementation of the regional autonomy policy are still prioritized for meeting routine expenditures, so the ratio of public development spending to APBD is still relatively small.

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## **Biographies**

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