

ASSESSING FISCAL EFFICIENCY, ECONOMY, AND EFFECTIVENESS: A VALUE FOR MONEY STUDY OF REGIONAL GOVERNMENT FINANCE IN BALI

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ABSTRACT

The Regional Revenue and Expenditure Budget (APBD) plays a crucial role in public financial management at the regional level, influencing development programs and community welfare. However, challenges remain in ensuring budget efficiency and effectiveness. This study analyzes the APBD performance of regencies and cities in Bali Province using the *Value for Money* approach, focusing on economic, efficiency, and effectiveness aspects. The research employs secondary data from regional financial reports between 2020 and 2023. Findings indicate significant fiscal disparities among regions. Badung Regency demonstrates the highest fiscal independence, with a Local Revenue ratio of 85.73%, while other areas remain highly dependent on central government transfers. Efficiency analysis reveals fluctuating trends, with Gianyar experiencing inefficiency spikes of up to 121% in 2021 before stabilizing in 2023. Badung Regency recorded a high effectiveness ratio of 154% in 2022, reflecting strong fiscal execution but also posing sustainability concerns. Moreover, fiscal balance varies across regions, with some experiencing surpluses while others face deficits, highlighting different budgeting strategies. For instance, Badung reported an expenditure of IDR 7.28 trillion in 2023 against revenues of IDR 7.21 trillion, showing controlled budget management, whereas Bangli faced a deficit with expenditures surpassing revenues. These variations indicate diverse financial strategies and challenges in optimizing budget allocations. This study provides valuable insights for regional governments in enhancing budget efficiency and ensuring fiscal sustainability to support long-term development objectives.

Keywords: budget, APBD, value for money, financial performance, regional autonomy.

INTRODUCTION

Public budgets play an important role in the success of government policies and the improvement of overall societal welfare. As a financial planning tool, budgets not only allocate resources efficiently, but also reflect development priorities and commitment to transparency and accountability. In the context of local government, budgets are increasingly important because of their impact on financial performance, which directly affects the quality of public services provided. The APBD, the main means of public financial management at the regional level, plays a crucial role in supporting various development programs and improving community welfare. However, the effectiveness of the APBD is often a particular concern, especially regarding the efficient use of resources and the impact of government expenditures. Halim (2012) notes that many local governments still use a traditional budgeting approach that focuses on expenditures without considering benefits. Presidential Decree No. 29 of 2014 on SAKIP and Law No. 14 of 2008 on Public Information Disclosure emphasize the need for open, accountable local financial management. According to Iskandar Tani (2023), this ensures accountability of public sector institutions and makes government operations information available. Therefore, government budgets must consider not only managing public funds, but also economy, efficiency, and effectiveness collectively known as "value for money." Measuring the performance of local government units in terms of value for money includes economic performance, measured by comparing the budget (inputs) to budget realization; efficiency performance, seen in the results (outputs) produced compared to the inputs used; and effectiveness performance, or the extent to which results support achieving the expected goals of institutions and programs (Hidayat, 2015).

Local governments with autonomy rights have the full authority to design budgets according to each region's unique and dynamic characteristics. Bali Province in Indonesia is a unique region in terms of budget management. District and city governments in Bali demonstrate significant variations in fiscal independence and budget management effectiveness. Badung Regency has the highest level of fiscal independence in Bali, with a regional own-source revenue (PAD) to total revenue ratio of 85.73% (Purbadharmaja et al., 2017). In contrast, other regencies depend heavily on the General Allocation Fund (DAU) and Special Allocation Fund (DAK) from the central government to finance development programs. Although fiscal decentralization in Bali has increased regional economic independence to 53% (Adi, n.d.), economic growth in some regions still fluctuates despite increasing regional revenues. This illustrates the challenges of effectively using budgets, particularly ensuring that every rupiah spent provides maximum benefits to the community. According to Kusuma's (2016) research, fiscal decentralization significantly impacts Bali's economic growth; however, increased fiscal independence does not directly affect public welfare.

Additionally, there are disparities in fiscal balance among Bali's regencies and cities, with some regions experiencing surpluses and others facing deficits. For instance, Badung Regency recorded revenues of Rp7.21 trillion last year, with regional expenditures reaching Rp7.28 trillion in 2023, indicating an expenditure increase in line with revenues. In contrast, Bangli Regency realized revenues of Rp1.26 trillion, but its expenditures reached Rp1.29 trillion, indicating a budget deficit. Similar conditions were seen in Denpasar City, which recorded Rp2.48 trillion in revenue and Rp2.32 trillion in expenditures. This pattern reflects the different fiscal strategies employed by different regions. According to balipost.com, the budget deficit is expected to reach nearly Rp800 billion by 2025.

Departing from these dynamics, this study will analyze the measurement of regional revenue and expenditure budgets in Bali Province's regencies and cities. The aim is to determine whether the government's budget is economically sound, efficient, and effective for regional development, in accordance with the objectives of regional autonomy, namely fiscal independence.

LITERATURE REVIEW

In this context, agency theory is relevant for understanding the relationship between local governments (agents) and the public (principals). According to this theory, there is the potential for a conflict of interest between the agent managing the budget and the principal interested in the outcome of that management. Information uncertainty and differing objectives between agents and principals can cause agents to act inconsistently with the interests of the principal. Therefore, it is important to implement accountability and transparency mechanisms in budget management so that agents can be held responsible for the effective use of public resources.

Budgeting

A budget is a financial plan that details projected revenues and expenditures in a specific period, usually one year. According to Mardiasmo (2018), the budget serves as a tool for planning, controlling, and evaluating the financial performance of an organization, including local governments. In the context of local government, public budgets not only reflect the allocation of resources for various programs and activities, but also reflect development priorities and a commitment to transparency and accountability. A good budget should be able to create a balance between revenues and expenditures, and ensure that each expenditure provides maximum benefits to the community. In addition, the budget also serves as an instrument to achieve regional development goals, improve community welfare, and encourage economic growth.

Value for Money

Value for Money (VfM) is a concept used to evaluate the performance of public budget management by emphasizing three main aspects: efficiency, effectiveness, and economy. According to Pollitt and Bouckaert (2011), VfM is an important tool to assess whether public spending provides maximum benefits to society. 1) Efficiency: Refers to the optimal use of resources to achieve a desired outcome. In a budgetary context, efficiency means that every dollar spent should produce maximum output. 2) Effectiveness: Indicates the extent to which the goals and objectives set out in the budget are achieved. Effectiveness measures the impact of government spending on public welfare and the achievement of development goals. 3) Economical: Focuses on the costs incurred to achieve a particular outcome. This concept emphasizes the importance of choosing the most cost-effective alternative without compromising the quality of services provided.

METHOD, DATA, AND ANALYSIS

This proposed research is a type of descriptive quantitative research. Where the data used is secondary data in the form of Regional Budget documents and Budget Realization Reports. Where the data is obtained from the official website of the data portal of the Ministry of Finance of the Republic of Indonesia via the link <https://djpk.kemenkeu.go.id/>. The research population is the Regency and City

Governments in Bali Province with the time span of the reports studied being 2020-2023. The analysis used by a Value for Money measurement which includes 3 calculation ratios with the operational definition of variables as follows:

Economic Ratio

The cost incurred by the government to provide services to the public is a measure of the level of economy. A measure of economic competence in fiscal management that considers the actual and target amounts spent, as well as the proportion of success in meeting both objectives. Or expressed in the following formula:

$$\text{ECONOMIC} = \frac{\text{Budget Expenditure Realization}}{\text{Budget Expenditure Target}} \times 100\% = \frac{\text{Budget Expenditure Realization}}{\text{Budget Expenditure Target}} \times 100\%$$

Assuming the budget is categorized as very economical if the outcome is more than 100%. The budget is considered affordable if the outcome is in the range of 90% to 100%. A more economical budget will yield results between 80% and 90%, but a less economical budget will yield results between 60% and 80%. An endeavor is considered unviable if the output is less than 60% of the allocated funds.

Efficiency Ratio

In the efficiency category, achieving maximum output with certain inputs or achieving certain outputs with the lowest inputs is one way to measure efficiency. Efficiency can be defined as the extent to which the output of an input meets or exceeds the set performance objectives. Or expressed in the formula:

$$\text{EFFICIENCY} = \frac{\text{Budget Expenditure Realization}}{\text{Revenue Budget Realization}} \times 100\% = \frac{\text{Budget Expenditure Realization}}{\text{Revenue Budget Realization}} \times 100\%$$

Assuming the budget is inefficient if the outcome exceeds 100%. The budget becomes inefficient if the results obtained range between 90% and 100%. An efficient budget will deliver outcomes between 60% and 80%, while a highly efficient budget will deliver outcomes between 80% and 90%. Considered highly efficient if the final cost is less than 60% of the allocated funds.

Effectiveness Ratio

To be considered successful, a program, activity, or organization must be able to achieve what was planned. It is only when the results substantially help achieve the objectives that have been set that an endeavor can be said to be fruitful. The level of effectiveness is determined by looking at the Regional Budget, or expressed in the following formula:

$$\text{EFFECTIVE} = \frac{\text{Revenue Budget Realization}}{\text{Revenue Budget Target}} \times 100\% = \frac{\text{Revenue Budget Realization}}{\text{Revenue Budget Target}} \times 100\%$$

By reflection the budget is considered highly effective if and only if the result exceeds 100%. The budget is considered effective if the result falls within the range of 90% to 100%. If the result falls between 80% and 90%, we can say that the budget was successful, but a result that falls between 60% and 80% indicates that the budget was less successful. The budget is then considered ineffective if the final cost is less than 60% of the allocated budget.

RESULT AND DISCUSSION

Budget Performance of Regency and City Governments in Bali Province based on Economic Ratios

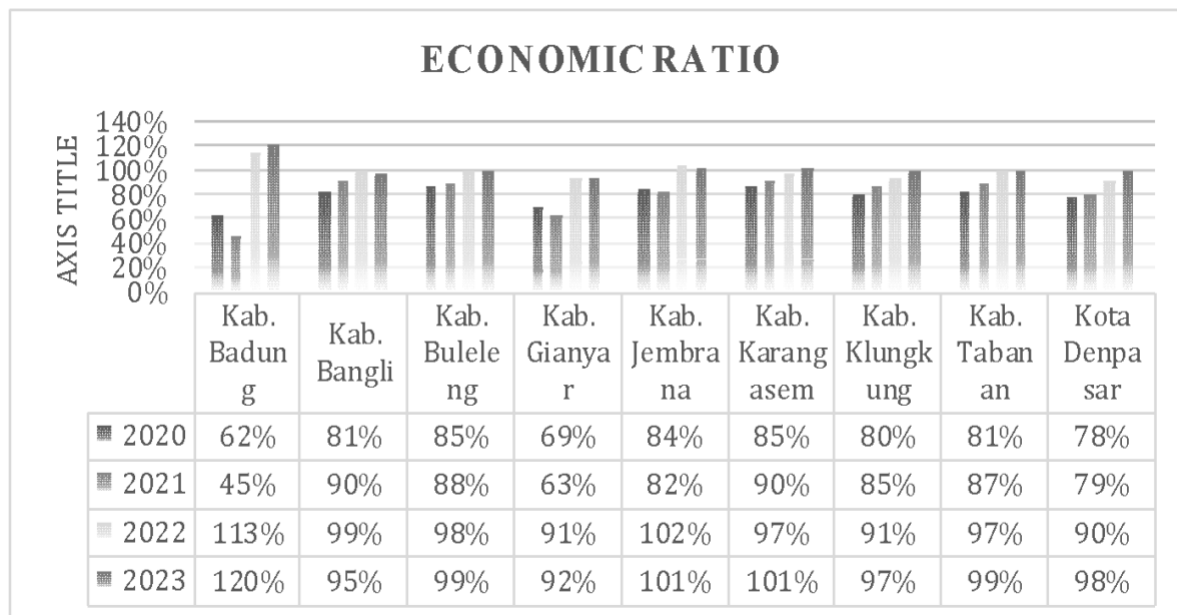


Figure. 1 Economic Ratio

Based on predetermined assumptions regarding budget categories and achievement results, the data shows that most regencies in Bali managed their budgets well. Badung Regency, with 120% achievement, stands out as an example of very frugal budget management, reflecting remarkable efficiency in the use of resources. This shows that Badung was not only able to achieve the set targets, but also exceeded expectations, which can be attributed to effective program planning and implementation strategies. On the other hand, districts such as Jembrana, Karangasem and Buleleng, which are in the affordable budget category with results between 90% to 100%, show that they are also successful in budget management, although there is room for further improvement in efficiency.

Nevertheless, districts that recorded an achievement rate below 90%, such as Gianyar and Klungkung, must conduct an in-depth evaluation of their budget management strategies. Although these districts are still in the affordable category, the lower results suggest room for improvement in program effectiveness and resource use. The fact that no district recorded a result below 60% suggests that all regions have managed to avoid uneconomical budget management. To achieve more ambitious development goals,

though, each district must commit to continuously improving the efficiency and effectiveness of its budget use and innovating its approach to achieve better results in the future.

Budget Performance of Regency and City Governments in Bali Province by Efficiency Ratio

From the data presented, it can be seen that the budget efficiency of various regencies and cities in Bali fluctuated throughout 2020 to 2023. Gianyar Regency, for example, experienced a significant spike in efficiency in 2021 with a ratio of 121%, indicating greater expenditure than results achieved. This trend then declined to 94% in 2023, which could be the result of corrective policies implemented. Bangli district experienced a similar pattern, with a high of 112% in 2022 before returning to a more stable level in 2023 (102%). In contrast, Badung Regency continued to experience fairly stable inefficiencies with ratios above 100% for several years, signaling recurring challenges in local budget management. Meanwhile, Karangasem Regency and Denpasar City maintained ratios in the 96-99% range, indicating that although still in the inefficient category, they tend to be more consistent than other regions.

From a policy perspective, this data suggests that regions with extreme efficiency spikes need to conduct an in-depth evaluation of the factors causing the imbalance between budget and results. This could include aspects such as program planning, procurement of goods and services, and the effectiveness of implementation on the ground. Gianyar and Bangli districts, which experienced large swings in efficiency from year to year, may need to develop mitigation strategies to prevent spending beyond capacity. On the other hand, the more stable districts of Karangasem and Denpasar City could explore how to improve efficiency by optimizing budget use without compromising the quality of public services.

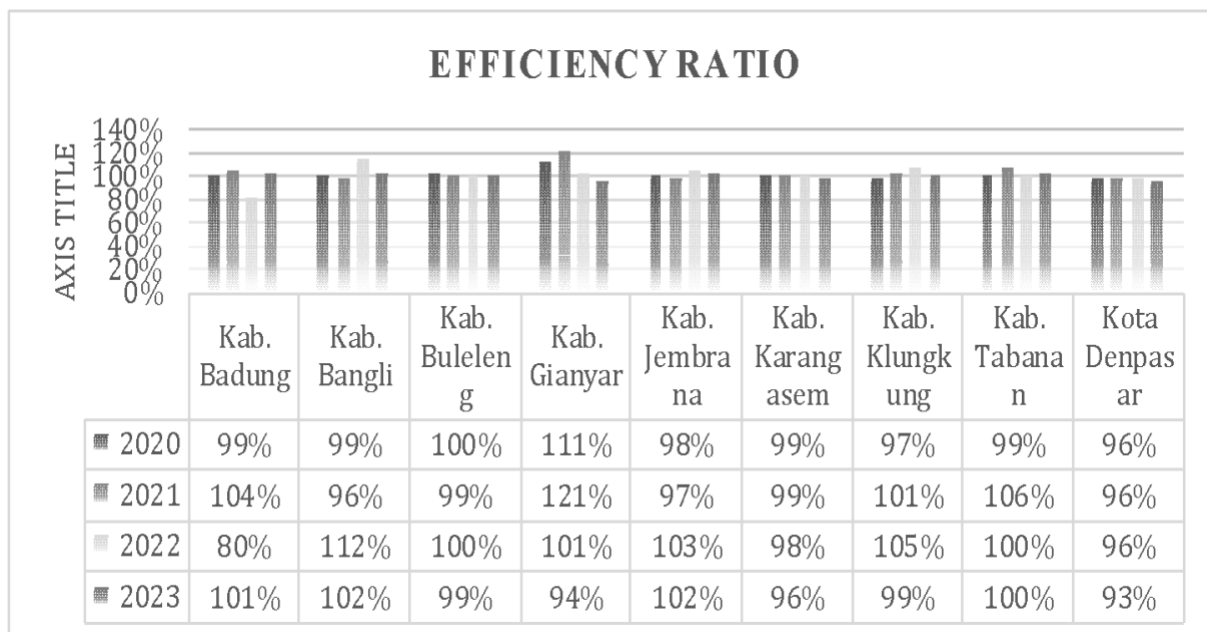


Figure 2. Efficiency Ratio

Budget Performance of Regency and City Governments in Bali Province based on Effectiveness Ratio

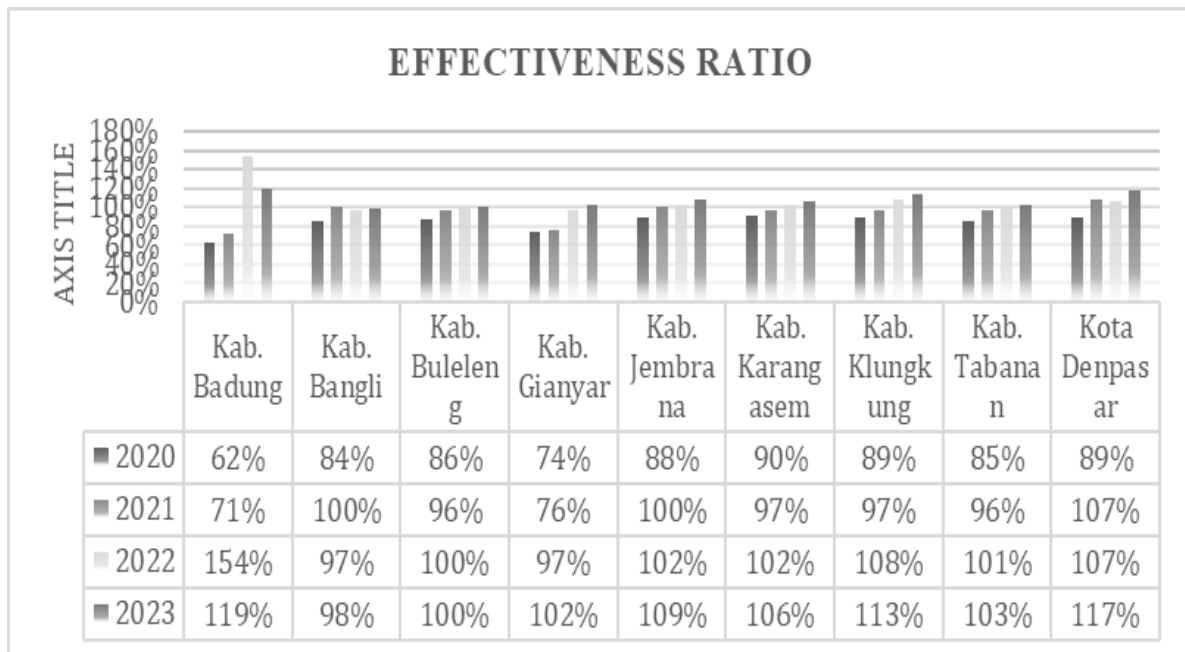


Figure 3. Effectiveness Ratio

From the perspective of effectiveness ratios, the pattern shows that some regions experienced year-on-year improvements in budget effectiveness, while others faced significant fluctuations. Badung Regency shows a sharp upward trend in effectiveness, from 62% in 2020 - a less successful category - to 154% in 2022 and 119% in 2023, which falls into the highly effective category. This change may indicate improvements in program planning and implementation in the region, but it also needs to be evaluated whether the spike is related to excessive program realization. On the other hand, Gianyar Regency experienced ineffectiveness in 2020 and 2021 with ratios below 80%, but then improved to 97% in 2022 and 102% in 2023. Denpasar City showed fairly consistent effectiveness, with an increase from moderately effective to highly effective since 2021. Klungkung and Karangasem districts also showed an increasing trend in effectiveness from year to year, which could signal improvements in budget management and execution.

These differences in effectiveness highlight the importance of flexible budget planning, particularly for regions experiencing drastic spikes, such as Badung Regency and Denpasar City. While this trend of increasing effectiveness may indicate optimized budget use, it could also be a sign of excessive program allocations. Districts such as Gianyar and Bangli, which changed from the less successful category to the effective category, can evaluate their policy implementation mechanisms to maintain effectiveness improvements without sharp spikes. Districts with consistent effectiveness, such as Karangasem and Klungkung, can refine their budget policies to improve community welfare more steadily.

CONCLUSION

An analysis of the economic, efficiency, and effectiveness ratios of Bali's regency and city budgets from 2020 to 2023 reflects diverse fiscal management dynamics. Gianyar and Bangli regencies demonstrate a notable shift from inefficiency to optimal effectiveness. In contrast, Badung regency exhibits an extreme spike in effectiveness that necessitates further examination to ensure balanced fund allocation. Meanwhile, Denpasar City and Karangasem Regency maintained stable effectiveness, reflecting more restrained budget planning. Meanwhile, some regions still face challenges in managing public funds and need to address these issues with more adaptive, data-driven budget strategies. Overall, budget effectiveness increased year over year, indicating an effort to improve local financial governance, though there is still room for optimization.

IMPLICATION/LIMITATION AND SUGGESTIONS

Apart from the results presented in this study, the researcher is aware of several limitations that need to be considered. The limited scope of the study to a particular area in Bali can affect the generalization of the findings, so a broader analysis is needed that covers all local governments in Indonesia to obtain a more comprehensive picture. In addition, the measurement approach in this study can still be strengthened by adding more in-depth indicators, such as the growth ratio and regional independence ratio, in order to enrich the analysis of budget effectiveness and efficiency more holistically. The implications of this study indicate that each region's fiscal policy has a unique pattern that is influenced by various factors, including budget management strategies and local economic challenges. Therefore, for further research, it is recommended to develop a more complex analysis model by considering additional variables such as socio-economic aspects, government policies, and the long-term impact of budget management. In addition, the use of more varied research methods, such as quantitative and qualitative approaches simultaneously, can provide deeper insights into the effectiveness of regional financial policies.

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