Declining financial performance of local governments in Indonesia: An empirical study during Covid-19

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Info Article

Abstract

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This research focuses on assessing the financial performance of Regency/City Governments in Central Java Province after refocusing their budget during the COVID-19 pandemic in 2021. Budget Refocusing is a government policy to cope with the impact of the COVID-19 pandemic. This policy certainly has an impact on the financial performance of local government. The calculation process to measure the financial performance of local government using formulas adopted from the research and development section of the Ministry of Home Affairs as well as the Faculty of Social and Political Sciences, Gadjah Mada University, and applied in previous research to calculate financial ratios such as the local government fiscal decentralization, local government financial dependency, regional original income (PAD) effectiveness, and capital expenditure ratios. The results showed that 71.43% of local governments have financial capability in the less category, 62.86% in the moderate category, and 45.71% have a PAD effectiveness ratio in the very effective category. Moreover, the average capital expenditure ratio for the governments was found to be 11.47%.

Introduction

The central government authorizes local governments to conduct their affairs independently through the regional autonomy law or decentralization (Pandey, 2020). This is expected to increase public services and create a more democratic process or pattern of decision-making in the public sphere. It was reported that the decentralization system, specifically in developing countries, enhances the ability of local governments to conduct their duties and optimize the use of existing potentials for the greatest prosperity of the people (Rugeiyamu et al., 2018). Explains was observed to follow agency theory, which states that the people as principals have the right to obtain services from agents, which is the government (Halim & Abdullah, 2006). It is also important to note that public services are usually delivered by the government through budget management activities in order to have the ability to measure accountability and performance (Damayanti & Susanto, 2015).

The measurement of government performance makes it possible to determine the success of a public organization in a certain period and to plan different efforts to improve the achievement in the next period (Ropa, 2016). Moreover, assessment of the financial performance of local governments is usually directed towards determining their financial condition and ability to explore and use existing fund sources in their area (Mutiha, 2016). It also assists in allocating resources and making decisions, improving institutional communication, and realising public accountability (Mardiasmo, 2006).

Good local financial performance is observable through several indicators, such as 1) effectiveness in exploring regional potential, 2) low level of dependence on the central government, and 3) the presence of a large portion of Regional Original Income (PAD) in financing development in the region. The Indonesia Minister of Finance stated that the current national average of PAD is limited, and the dependence level on regional transfers is also very high. This was indicated by the fact that 80.1% of local governments depend on the central government, while the average contribution of PAD is only 12.87% (Olivia, 2018).

The COVID-19 pandemic that hit Indonesia in early 2020 forced the central and local governments to reorganize or refocus their budgets to minimise the pandemic's economic effect. This certainly affected local governments' financial performance and required them to respond to the situation through several policies that can protect the community and simultaneously ensure the adequate performance of their regional financial management. Central Java Province was reported to be the region with the third highest cases nationally after Jakarta and West Java, as indicated by the data retrieved from January 26, 2022, that the total number of confirmed cases was 625,903, the number of patients in treatment or isolation was 321, and those who have recovered/completed isolation were 584,531. This research focused on this province because it has more cities and regencies than Jakarta and West Java.

Research related to local government performance is considered attractive because 1) performance assessment has consistently been more focused on the achievement of targets with less attention to the composition of changes to the regional budget (APBD) Pramono (2014), and 2) decentralization schemes have not been able to fully explore sources of regional income (Susilawati et al., 2018). It is also important to note that most previous research related to the concept produced different results, as indicated by several values reported concerning fiscal decentralization and independence ratios such as 15-24% (Pramono, 2014), 17% (Susanto, 2019), 25.7% (Ropa, 2016), 35% (Susilawati et al., 2018), 23% (Mutiha, 2016), and 1.5% (Ramadhani, 2016). Some other research on the PAD effectiveness ratio reported that the value in some areas was already good, such as >90% (Pramono, 2014), >100% (Susanto, 2019) , >99% (Ropa, 2016), >92% (Ramadhani, 2016), >104% (Mutiha, 2016), and >106% (Rahmayati, 2016). These findings showed that local governments could optimize the potential revenue previously planned, allowing them to achieve their targets. However, the capital expenditure ratio for some local governments was found to be low such as 9-13% (Pramono, 2014), 17% (Pasupati, 2020), 18.8% (Ropa, 2016), and 16% (Rahmayati, 2016).

This present research focused on all regencies in Central Java because the previous investigation conducted emphasized a particular area such as Surakarta City (Rahmayati, 2016), Mataram City (Damayanti & Susanto, 2015), South Minahasa Regency (Ropa, 2016), Sleman Regency (Susilawati et al., 2018), Tarakan City (Ramadahniel et al., 2022), Bogor City (Mutiha, 2016), and Sukoharjo Regency (Rahmayati, 2016). The object was also expanded to obtain a more significant number of observations to allow for more generalization of the findings. In addition, the novelty of this research is the budget-refocusing policy implemented by the government during the pandemic to minimize the impact of the COVID-19 pandemic in 2021.

The impact of implementing a budget-refocusing policy aimed at accelerating the handling of the impact of COVID-19 affects the financial performance of local governments due to adjustments to regional revenue and expenditure targets. This adjustment was made in response to the decline in economic activity so that the regional revenue and expenditure targets would undoubtedly experience a decrease due to the COVID-19 pandemic.

Method

The analysis technique used in this research is a quantitative descriptive analysis technique, and the data collection method uses a document study method approach in the form of secondary documents, namely data on the ceiling and realization of the Regional Budget (APBD) of Regency/City in Central Java in 2021. This research aims to assess the financial performance of Regency/City Governments in Central Java in 2021 and to analyze their financial ratios based on the regional budget for the year. The data used include the PAD budget, the realization of PAD, the total realization of regional income, the realization of transfer receipts, the total realization of regional expenditures, and the total realization of capital expenditures. These data were used to calculate the fiscal decentralization, financial dependency, PAD effectiveness, and capital expenditure ratios using the formulas adopted from previous research (Permatasari et al., 2023; Pramono, 2014; Ropa, 2016; Susanto, 2019).

Local Government Financial Performance
Financial performance is usually used to assess the accountability of local government to manage its finances towards providing public services. Accountability is the obligation to convey information to the public on the expenditure and management of funds economically, effectively, and efficiently. This is necessary because every rupiah of funds spent by local governments should be able to fulfil the interests and demands of the public and be accountable to them (Halim & Kusufi, 2014).

According to Mardiasmo, performance measurement provides several benefits for government organizations, such as a) assessment of organizational performance, b) provision of direction to achieve targets, c) monitoring or evaluate the achievement of organizational performance, d) serving as the objective basis to provide previously agreed rewards and punishments, e) function as a communication tool between leaders and subordinates, f) provision of assistance in identifying the fulfilment of community satisfaction, g) assist in understanding the operational activities in government agencies, and h) ensure decisions were made objectively (Mahmudi, 2016). Mahmudi also reported that regional financial ratio analysis, including Fiscal Decentralization, Local Government Financial Dependency, PAD Effectiveness, and Capital Expenditure Ratios, can be used to measure the financial performance of local governments (Mahmudi, 2016).

Local Government Fiscal Decentralization Ratio
The fiscal decentralization ratio can be calculated by comparing the total realization of PAD in the current year with the total realization of regional income in the same year (Mahmudi, 2016). PAD consists of 1) Regional Taxes, 2) Regional Levies, 3) Separated Regional Wealth Management Results (Regional Owned

Enterprise/BUMD profit), and 4) Other valid PADs. The results show the public's participation level in conducting their obligations of paying taxes and levies, as well as BUMD profit sharing to support regional income as a whole. It also indicates the level of local government dependence on funding from the central government such that a higher fiscal decentralization ratio represents a lower local government dependence (Agustin et al., 2023; Evia et al., 2022; Indramawan, 2018).

The formula used to measure the fiscal decentralization ratio (FDR) is stated as follows:

$$FDR = \frac{Total\ Realization\ of\ PAD\ in\ year\ t}{Total\ Realization\ of\ Regional\ Income\ in\ year\ t}$$

Table 1. interval scale

Fiscal Decentralization Ratio (%)	Local Government Financial Capability
0–10	Very less
10–20	Less
20–30	Enough
30–40	Moderate
40–50	Good
>50	Very good

Source: Research and Development from the Ministry of Home Affairs and the Faculty of Social and Political Sciences, UGM, 1991.

Local Government Financial Dependency Ratio
The local government financial dependency ratio is usually calculated by comparing the total realization of transfer income in the current year to the total realization of regional income in the same year (Mahmudi, 2016). The transfer income is part of regional income originating from the central government, such as 1) Balancing Funds, 2) Special Autonomy Funds, 3) Privileges Funds, and 4) Village Funds, as well as the transfers made between local governments. The results from this indicator usually show the level of local government's financial dependence on funding from the Central Government such that the higher local government financial dependency ratio indicates a higher level of financial dependence (Indramawan, 2018).

The formula used to measure the Local Government Financial Dependency Ratio (LGFDR) is stated as follows:

$$LGFDR = \frac{Total\ Real\ of\ Transfer\ Income\ in\ year\ t}{Total\ Real\ of\ Regional\ Income\ in\ year\ t}$$

Table 2. The interval scale of the Local Government Financial Dependency Ratio

RKKPD (%)	Local Government Financial Dependence
0–25	Very low
25–50	Low
50–75	Moderate
75–100	Enough

Source: Research and Development from the Ministry of Home Affairs and the Faculty of Social and Political Sciences, UGM, 1991

PAD Effectiveness Ratio
The PAD effectiveness ratio was determined by comparing the total realization of PAD in year t to the total PAD budget in the same year. It usually shows the ability of the local government to realize the targets in the PAD budget (Mahmudi, 2016). According to Indramawan (2018), this indicator shows the regional ability to explore regional revenue sources. This means the higher PAD effectiveness ratio indicates the

higher financial effectiveness level of the local governments in exploring revenue sources in the region (Indramawan, 2018).

The formula used to measure the PAD effectiveness ratio is as presented as follows:

$$PAD\ Eff.Ratio = \frac{Total\ Realization\ of\ PAD\ in\ year\ t}{Total\ PAD\ Budget\ in\ year\ t}$$

Table 3. Interval scale

PAD Effectiveness Ratio (%)	Effectiveness Criteria
<75	Ineffective
75–89	Less effective
90–99	Effective enough
100	Effective
>100	Very effective

Source: Research and Development from the Ministry of Home Affairs and the Faculty of Social and Political Sciences, UGM, 1991.

Capital Expenditure Ratio

The capital expenditure ratio was calculated by comparing the total capital expenditure in the current year to the total regional expenditure as a whole in the same year. It shows the ability of local governments to realize regional expenditures for the acquisition or procurement of fixed or other assets to be used or with the capacity to provide benefits in the long term (more than one fiscal year). Muda and Naibaho showed that there are two types of capital expenditures, which include 1) those felt directly by the community, such as the construction of roads, bridges, hospitals, schools, markets, and others and 2) those that cannot be felt directly by the community such as those applied to support the operational activities of the regional apparatus as indicated by the construction of government office buildings, operational service vehicles, official residences, and others (Guerrero-dib & Portales, 2020; Pradani et al., 2021).

The formula for measuring the Capital Expenditure Ratio (CER) is as follows:

$$CER = \frac{Total\ Real.of\ Cap.Expend.in\ year\ t}{Total\ Real.of\ Reg.Expend.in\ year\ t}$$

Mahmudi (2016) found that the average capital expenditure in local governments ranges from 5 to 20% of total regional expenditure and a higher ratio was recommended.

Result and Discussion

Realization of Regency/City Original Revenue in Central Java in 2021

The data published on the official website of the Ministry of Finance official at https://djpk.kemenkeu.go.id /portal/data/apbd showed the realization of regency or city original revenue in Central Java in 2021, as presented in the following Table 1.

Table 4. Realization of Regency or City Original Revenue in Central Java in 2021

Local Government Name	Number	Rank	Local Government Name	Number	Rank
Banjarnegara Regency	229,26	31	Pemalang Regency	326,06	20
Banyumas Regency	567,32	4	Purbalingga Regency	193,05	34
Batang Regency	260,47	26	Purworejo Regency	343,41	18
Blora Regency	246,11	29	Rembang Regency	258,63	27
Boyolali Regency	409,96	9	Semarang Regency	436,67	7

Local Government Name	Number	Rank	Local Government Name	Number	Rank
Brebes Regency	458,18	6	Sragen Regency	426,87	8
Cilacap Regency	622,60	3	Sukoharjo Regency	471,53	5
Demak Regency	388,75	11	Tegal Regency	639,99	2
Grobogan Regency	289,46	23	Temanggung Regency	364,10	16
Jepara Regency	308,68	22	Wonogiri Regency	280,00	25
Karanganyar Regency	378,23	13	Wonosobo Regency	229,64	30
Kebumen Regency	367,17	15	Magelang City	313,35	21
Kendal Regency	371,56	14	Pekalongan City	198,19	33
Klaten Regency	288,98	24	Salatiga City	215,73	32
Kudus Regency	383,98	12	Semarang City	1.867,23	1
Magelang Regency	327,25	19	Surakarta City	404,56	10
Pati Regency	347,48	17	Tegal City	191,45	35
Pekalongan Regency	257,68	28			

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

The table shows that the regencies/cities with the most significant realization of PAD in 2021 include 1) Semarang City, 2) Tegal Regency, 3) Cilacap Regency, 4) Banyumas Regency, and 5) Sukoharjo Regency. Moreover, the development for the realization of regency or city original revenue in Central Java from 2019 to 2021 is presented in the following graph 1.
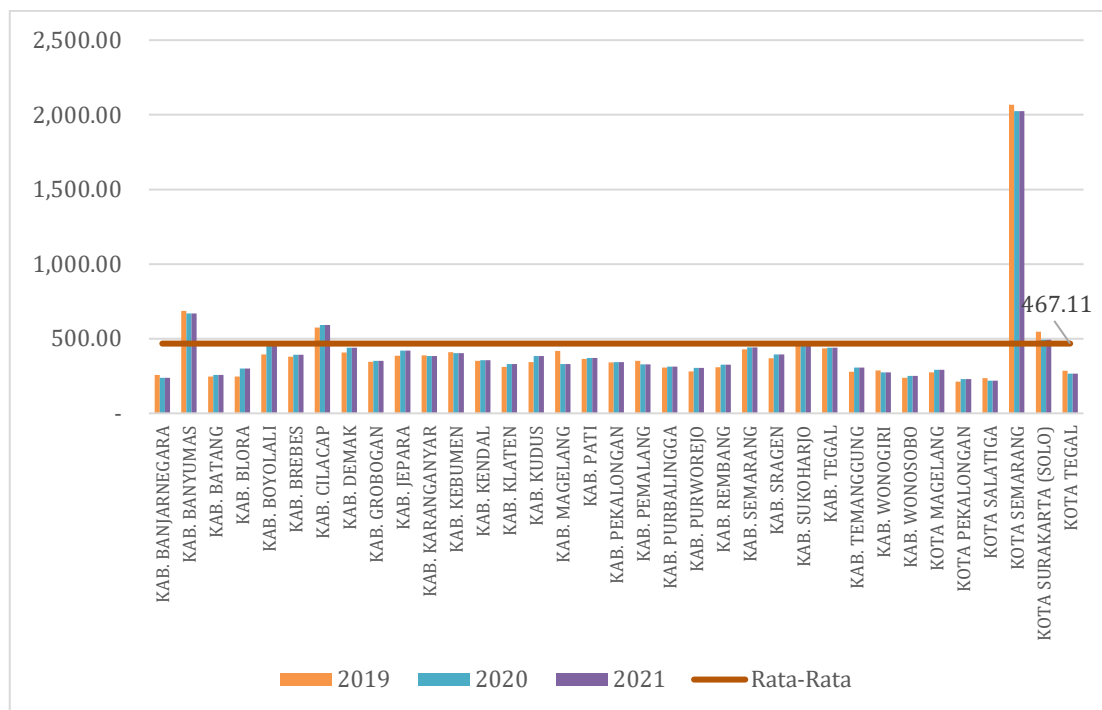
Figure 1. Realization of Regency/City Original Revenue in Central Java in 2019-2021

The graph shows that the average realization of regency or city original revenue in Central Java for the period of 2019 to 2021 was IDR 402.49 billion and those observed to be above average include 1) Semarang City, 2) Banyumas Regency, 3) Cilacap Regency, 4) Surakarta City, 5) Sukoharjo Regency, 6) Tegal Regency, 7) Semarang Regency, 8) Demak Regency, 9) Boyolali Regency, and 10) Brebes Regency.

Fiscal Decentralization Ratio Analysis

The results of the Fiscal Decentralization Ratio for 2019-2021 using the aforementioned formula are presented in the following table 5.

Table 5. Fiscal Decentralization Ratio of Regency/City Governments in Central Java in 2019-2021

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Banjarnegara Regency	12,24	31	11,96	35	12,16	30
Banyumas Regency	19,99	8	20,07	8	18,72	13
Batang Regency	13,89	25	14,85	23	16,30	19
Blora Regency	11,02	35	14,08	25	11,84	33
Boyolali Regency	16,77	14	18,95	11	18,31	15
Brebes Regency	12,24	30	13,05	32	15,36	22
Cilacap Regency	17,49	11	18,76	13	19,71	12
Demak Regency	17,25	12	18,84	12	17,08	17
Grobogan Regency	13,35	26	13,86	28	12,00	32
Jepara Regency	15,95	18	18,11	15	15,75	21
Karanganyar Regency	17,79	10	18,13	14	18,07	16
Kebumen Regency	14,52	24	14,59	24	13,69	25
Kendal Regency	15,73	20	16,74	19	16,87	18
Klaten Regency	11,59	34	12,80	29	11,51	34
Kudus Regency	16,45	15	19,04	10	19,96	10
Magelang Regency	16,20	16	13,85	29	14,05	24
Pati Regency	12,82	29	13,96	27	12,94	28
Pekalongan Regency	15,64	21	16,58	21	13,15	26
Pemalang Regency	13,30	27	13,41	30	12,76	29
Purbalingga Regency	14,74	23	16,06	22	10,86	35
Purworejo Regency	12,91	28	14,07	26	15,91	20
Rembang Regency	16,93	13	17,39	17	14,10	23
Semarang Regency	18,56	9	20,01	9	21,93	8
Sragen Regency	16,01	17	17,83	16	19,79	11
Sukoharjo Regency	21,40	7	23,01	7	24,21	4
Tegal Regency	15,82	19	16,59	20	22,47	7
Temanggung Regency	14,82	22	16,79	18	18,67	14
Wonogiri Regency	11,76	33	12,06	34	12,15	31
Wonosobo Regency	12,17	32	13,40	31	13,09	27
Magelang City	28,27	2	30,73	2	32,52	2
Pekalongan City	21,90	6	24,12	6	22,53	6
Salatiga City	25,44	5	24,66	5	25,01	3
Semarang City	45,26	1	46,01	1	46,75	1
Surakarta City	28,06	3	26,91	3	23,85	5
Tegal City	27,54	4	26,19	4	20,95	9

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

The table shows that Semarang City is the area with the highest fiscal decentralization ratio for the three consecutive years with 46.75% recorded in 2021 and this means the city has a "GOOD" financial capability. Moreover, the grouping of the financial capability of Regency/City Governments based on the interval scale of the fiscal decentralization ratio in 2021 is presented as follows table 6.

Table 6. The Grouping for the Financial Capability of Regency/City Governments in Central Java Based on the Interval Scale of Fiscal Decentralization Ratio in 2021

Fiscal Decentralization Ratio	Local Government Financial Capability	Name of Regency/City Governments
0-10	Very less	-

Fiscal Decentralization Ratio	Local Government Financial Capability	Name of Regency/City Governments
10-20	Less	(1) Banjarnegara Regency; (2) Banyumas Regency; (3) Blora Regency; (4) Boyolali Regency; (5) Brebes Regency; (6) Cilacap Regency; (7) Demak Regency; (8) Grobogan Regency; (9) Jepara Regency; (10) Karanganyar Regency; (11) Kebumen Regency; (12) Kendal Regency; (13) Klaten Regency; (14) Kudus Regency; (15) Magelang Regency; (16)Pati Regency; (17) Pekalongan Regency; (18) Pemalang Regency; (19) Purbalingga Regency; (20) Purworejo Regency; (21)Rembang Regency; (22) Sragen Regency; (23) Wonosobo Regency; (24) Wonogiri Regency; (25) Temanggung Regency.
20-30	Enough	(1) Semarang Regency; (2) Sukoharjo Regency; (3) Tegal Regency; (4) Pekalongan Regency; (5) Salatiga City; (6) Surakarta City; (7) Tegal City
30-40	Moderate	(1) Magelang City
40-50	Good	(1) Semarang City
>50	Very Good	-

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

Table 6 shows that it is only Semarang City found in the "GOOD" financial capability category, followed by Magelang City in "MODERATE", as well as 7 and 25 Local Governments represented by 20% and 71.43% are in "ENOUGH" and "LESS" financial capability, respectively. The realization of Local Government Revenue (PAD) for Semarang City with "GOOD" financial capability was recorded in 2021 to be IDR 2,307.51 billion which was sourced from tax collection with IDR 1,445.49 billion or 62.64%, regional levies with IDR 97.59 billion or 4.23%, separated regional wealth management with IDR 96.9 billion or 4.20%, and other legitimate PADs with IDR 667.52 billion which contribute 28.93%.

Local Government Financial Dependency Ratio Analysis

The local government dependency ratio was used to determine the level of dependence on revenue sources from central government and inter-local government transfer funds to finance the expenditures of the local government concerned. The results obtained from the calculation are presented in the following table 7.

Table 7. Regency/City Governments Financial Dependency Ratio in Central Java in 2019-2021

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Banjarnegara Regency	77,48	3	76,70	1	79,61	2
Banyumas Regency	68,30	26	68,24	25	72,21	18
Batang Regency	73,89	12	74,36	7	77,98	3
Blora Regency	77,83	2	73,97	10	77,60	4
Boyolali Regency	72,23	18	70,53	22	73,32	17
Brebes Regency	74,82	9	73,15	13	74,90	13
Cilacap Regency	68,90	24	67,36	26	67,46	28
Demak Regency	68,05	28	54,69	34	68,98	25
Grobogan Regency	73,22	15	71,63	17	76,41	9
Jepara Regency	68,75	25	68,29	24	73,45	16
Karanganyar Regency	71,12	23	70,58	21	70,57	23
Kebumen Regency	75,16	8	75,07	5	76,64	5
Kendal Regency	72,93	17	71,39	18	71,71	20
Klaten Regency	75,88	5	75,81	3	76,60	6
Kudus Regency	71,33	22	70,47	23	72,18	19

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Magelang Regency	73,14	16	74,85	6	75,16	12
Pati Regency	73,67	14	74,02	9	74,08	15
Pekalongan Regency	74,05	11	73,30	12	76,51	7
Pemalang Regency	73,86	13	74,16	8	74,35	14
Purbalingga Regency	74,77	10	72,76	15	81,27	1
Purworejo Regency	78,01	1	76,25	2	76,48	8
Rembang Regency	71,92	20	72,86	14	70,18	24
Semarang Regency	68,25	27	67,00	27	67,11	31
Sragen Regency	72,04	19	70,86	19	70,83	22
Sukoharjo Regency	60,27	33	59,59	33	67,07	32
Tegal Regency	71,57	21	71,67	16	67,11	30
Temanggung Regency	75,44	7	70,70	20	71,06	21
Wonogiri Regency	76,53	4	75,42	4	76,20	10
Wonosobo Regency	75,69	6	73,73	11	75,89	11
Magelang City	63,70	31	61,62	31	61,66	34
Pekalongan City	66,24	29	65,64	29	68,65	26
Salatiga City	65,40	30	66,29	28	67,40	29
Semarang City	39,91	35	40,54	35	41,36	35
Surakarta (Solo) City	59,46	34	60,45	32	66,91	33
Tegal City	61,88	32	63,65	30	67,62	27

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

The table shows that Semarang City has the lowest local government financial dependency ratio for three consecutive years with the value recorded to be 41.36% in 2021 and this indicates a "**LOW**" financial dependence on the central government. Meanwhile, Pubalingga Regency has the highest value with 81.27% and this means it is in the "**HIGH**" category. The classification for the financial dependence level of Regency/City Governments based on the interval scale of the financial dependency ratio in 2021 is as follows table 8.

Table 8. The Grouping for Financial Dependence of Regency/City Governments in Central Java Based on Interval Scale of Local Government Financial Dependency Ratio in 2021

Fiscal Decentralization Ratio	Local Government Financial Dependence	Name of Regency or city Local Governments
0-25	Very low	-
25-50	Low	(1) Semarang City
50-75	Moderate	(1) Banyumas Regency; (2) Boyolali Regency; (3) Brebes Regency; (4) Cilacap Regency; (5) Demak Regency; (6) Jepara Regency; (7) Karanganyar Regency; (8) Kendal Regency; (9) Kudus Regency; (10) Pati Regency; (11) Pemalang Regency; (12) Rembang Regency; (13) Semarang Regency; (14) Sragen Regency; (15) Sukoharjo Regency; (16) Tegal Regency; (17) Magelang City; (18) Pekalongan City; (19) Salatiga City; (20) Surakarta City; (21) Tegal City; (22) Temanggung Regency
75-100	High	(1) Banjarnegara Regency; (2) Batang Regency; (3) Blora Regency; (4) Grobogan Regency; (5) Kebumen Regency; (6) Klaten Regency; (7) Magelang Regency; (8) Pekalongan Regency; (9) Purbalingga Regency; (10) Purworejo Regency; (11) Wonosobo Regency; (12) Wonogiri Regency

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

The table shows that only Semarang City has a "**LOW**" level of financial dependence while a total of 22 regencies/cities and 12 others represented by 62.86% and 34.29% are in "**MODERATE**" and "**HIGH**", respectively.

PAD Effectiveness Ratio Analysis

PAD effectiveness ratio was used to determine the level of regional ability in exploring the potential of regional revenues in the current year's APBD. The results obtained for regencies/cities in Central Java from 2019 to 2021 using the aforementioned formula are presented in the following Table 9.

Table 9. PAD Effectiveness Ratio of Regencies/Cities in Central Java in 2019-2021

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Banjarnegara Regency	111,16	17	90,60	29	79,75	28
Banyumas Regency	107,90	18	91,55	28	75,14	31
Batang Regency	104,51	25	104,47	18	97,04	20
Blora Regency	123,43	4	112,35	6	94,88	22
Boyolali Regency	119,22	7	122.25	2	114,27	8
Brebes Regency	101,86	27	98,47	21	110,90	10
Cilacap Regency	114,78	10	95,69	25	88,64	26
Demak Regency	119,92	6	108,73	9	97,12	19
Grobogan Regency	107,87	19	105,56	16	89,57	24
Jepara Regency	106,97	20	103,94	19	75,49	30
Karanganyar Regency	118,25	8	107,71	12	106,34	14
Kebumen Regency	101,99	26	96,49	23	103,60	15
Kendal Regency	84,64	35	83,88	30	89,42	25
Klaten Regency	113,86	12	108,34	11	116,03	7
Holy Regency	106,20	22	101,37	20	107,02	12
Magelang Regency	97,56	31	81,20	31	112,28	9
Pati Regency	111,53	15	105,64	15	102,03	16
Pekalongan Regency	87,24	34	73,24	35	53,70	34
Pemalang Regency	125,88	3	106,25	14	127,28	6
Purbalingga Regency	114,68	11	110,43	8	74,74	32
Purworejo Regency	99,10	29	93,33	26	106,38	13
Rembang Regency	105,68	23	106,32	13	83,09	27
Semarang Regency	112,78	14	92,22	27	95,25	21
Sragen Regency	115,58	9	116,63	3	138,77	3
Sukoharjo Regency	145,51	1	141,34	1	137,43	5
Tegal Regency	104,59	24	97,60	22	147,52	1
Temanggung Regency	111,47	16	115,20	4	138,35	4
Wonogiri Regency	128,41	2	108,70	10	108,43	11
Wonosobo Regency	112,97	13	112,02	7	97,14	18
Magelang City	98,65	5	114,01	5	147,22	2
Pekalongan City	106,61	30	105,44	17	97,24	17
Salatiga City	95,69	21	96,29	24	90,89	23
Semarang City	106,61	33	80,45	33	73,45	33
Surakarta (Solo) City	100,23	28	80,73	32	77,33	29
Tegal City	95,94	32	80,05	34	51,45	35

Source: www.djpk.kemenkeu.go.id, processed (January 24, 2022)

The table shows that Tegal Regency has the highest PAD effectiveness ratio in Central Java in 2021 with 147.52% but the position was previously held by Sukoharjo Regency for two consecutive years of 2019 and 2020. This means Tegal Regency has the ability to realize PAD exceeding the set target and this indicates it is in the "**VERY EFFECTIVE**" category. Meanwhile, Tegal City has the lowest value in 2021 with 51.45%, indicating it is in the "**INEFFECTIVE**" category.

The grouping for the financial dependence level of Regency/City Governments based on the interval scale of the local government financial dependency ratio in 2021 is as follows.

Table 10. The Grouping for PAD Effectiveness of Regencies/Cities in Central Java Based on the Interval Scale of PAD Effectiveness Ratio in 2021

Fiscal Decentralization Ratio	Local Government Financial Capability	Name of Regency or city Local Governments
<75	Ineffective	(1) Pekalongan Regency; (2) Purbalingga Regency; (3) Semarang City; (4) Tegal City
75-89	Less effective	(1) Banjarnegara Regency; (2) Banyumas Regency; (3) Cilacap Regency; (4) Rembang Regency; (5) Jepara Regency; (6) Surakarta City; (7) Kendal Regency; (8) Grobogan Regency
90-99	Effective enough	(1) Batang Regency; (2) Blora Regency; (3) Demak Regency; (4) Semarang Regency; (5) Wonosobo Regency; (6) Pekalongan City; (7) Salatiga City
100	Effective	-
>100	Very effective	(1) Boyolali Regency; (2) Brebes Regency; (3) Karanganyar Regency; (4) Kebumen Regency; (5) Klaten Regency; (6) Kudus Regency; (7) Magelang Regency; (8) Pati Regency; (9) Pemalang Regency; (10) Purworejo Regency; (11) Sragen Regency; (12) Sukoharjo Regency; (13) Tegal Regency; (14) Magelang City; (15) Wonogiri Regency; (16) Temanggung Regency

Source: www.djpk.kemenkeu.go.id, processed (January, 2022)

The table shows that 4, 8, 7, and 16 regencies/cities represented by 11.43%, 22.86%, 20%, and 45.71% are in the "**INEFFECTIVE**", "**LESS EFFECTIVE**", "**EFFECTIVE ENOUGH**", and "**VERY EFFECTIVE**" categories of PAD effectiveness ratio, respectively.

Capital Expenditure Ratio Analysis

The capital expenditure ratio was used to compare the amount of government expenditure used to finance the acquisition of fixed and other assets with benefits that are more than one period of the budget year to the total regional expenditure in the same period. The results obtained for this indicator using the formula previously mentioned are shown in the following table 11.

Table 11. Capital Expenditure Ratio of Regencies/Cities in Central Java in 2019-2021

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Banjarnegara Regency	16,87	15	17,16	3	11,89	16
Banyumas Regency	13,85	24	11,19	24	8,53	29
Batang Regency	12,07	32	9,20	29	10,84	20
Blora Regency	21,21	7	16,55	4	14,77	8
Boyolali Regency	22,28	5	17,31	2	19,24	3
Brebes Regency	19,86	9	14,97	6	14,05	9
Cilacap Regency	20,20	8	12,55	14	17,23	5
Demak Regency	19,72	10	12,55	14	10,99	19
Grobogan Regency	17,59	13	13,49	9	11,77	18
Jepara Regency	13,91	23	11,74	20	7,17	32
Karanganyar Regency	12,68	29	7,10	31	8,57	28

Local Government Name	2019		2020		2021	
	Ratio	Rank	Ratio	Rank	Ratio	Rank
Kebumen Regency	13,02	27	10,55	25	8,86	27
Kendal Regency	12,6	30	5,31	35	6,31	35
Klaten Regency	11,49	34	6,17	33	7,17	33
Kudus Regency	13,49	25	11,59	21	7,46	31
Magelang Regency	15,05	20	9,30	28	8,52	30
Pati Regency	14,11	22	11,52	22	10,38	21
Pekalongan Regency	15,81	19	11,75	19	8,90	26
Pemalang Regency	13,45	26	12,86	12	6,65	34
Purbalingga Regency	12,71	28	6,88	32	8,99	25
Purworejo Regency	14,98	21	11,94	18	11,79	17
Rembang Regency	11,11	35	8,42	30	10,21	22
Semarang Regency	17,02	14	10,00	26	10,12	23
Sragen Regency	11,92	33	12,60	13	9,37	24
Sukoharjo Regency	16,58	16	11,52	23	13,15	13
Tegal Regency	15,99	17	9,94	27	12,82	14
Temanggung Regency	12,13	31	5,72	34	11,99	15
Wonogiri Regency	23,01	3	12,92	11	15,88	7
Wonosobo Regency	21,27	6	14,60	7	13,48	11
Magelang City	27,34	1	13,43	10	19,61	2
Pekalongan City	19,09	12	18,43	1	17,03	6
Salatiga City	19,49	11	12,27	16	13,16	12
Semarang City	22,76	4	12,27	16	20,08	1
Surakarta (Solo) City	27,01	2	15,31	5	18,53	4
Tegal City	15,86	18	14,13	8	13,52	10

Source: www.djpk.kemenkeu.go.id, processed (January, 2022)

The table shows that Semarang City has the highest Capital Expenditure Ratio in Central Java in 2021 with 20.08% while Wonogiri Regency is the lowest with 6.65%. The assessment results for the regional financial ratio of Regency/City Governments in Central Java in 2021 are also presented in the following Table 9.

Table 12. Top Five Regency/City Governments in Central Java in 2021 Based on the Regional Financial Ratio

Fiscal Decentralization Ratio		Local Government Financial Dependency Ratio	
Local Government Name	Ratio	Local Government Name	Ratio
Semarang City	46,75	Purbalingga Regency	81,27
Magelang City	32,52	Banjarnegara Regency	79,61
Salatiga City	25,01	Batang Regency	77,98
Sukoharjo Regency	24,21	Blora Regency	77,60
Surakarta City	23,85	Kebumen Regency	76,64

PAD Effectiveness Ratio		Capital Expenditure Ratio	
Local Government Name	Ratio	Local Government Name	Ratio
Tegal Regency	147,52	Semarang City	20,08
Magelang City	147,22	Magelang City	19,61
Sragen Regency	138,77	Boyolali Regency	19,24
Temanggung Regency	138,35	Surakarta City	18,53
Sukoharjo Regency	137,43	Cilacap Regency	17,23

Source: www.djpk.kemenkeu.go.id, processed

DISCUSSION

Fiscal decentralization involves comparing the PAD ratio to total income, which means a higher decentralization indicates more community participation in contributing to income. The results showed that the average value of the fiscal decentralization ratio in 2021 was 17.60 per cent and is relatively stable when compared to previous years, 18.50 per cent (2020) and 17.59 per cent (2019). This is observed to be the consequence of regional autonomy with the decentralization concept implemented to ensure governments have the financial resources to improve the welfare of the people (Evia et al., 2022; Putra et al., 2021). Decentralization is the right strategy because it allows the local governments to work more efficiently by knowing the desires of the community and increasing their satisfaction (Chattopadhyay, 2018).

It is also important to note that regional autonomy with a high degree of decentralization can assist the local governments in increasing their income and subsequently reduce their dependence on the central government. This is necessary because high regional income usually creates several opportunities and also motivates local governments to explore the potential existing in their community towards becoming more independent (Ristanti & Handoyo, 2017). The success of regional autonomy can be demonstrated through the success of the apparatus deployed by the government to manage resources following the financial needs and priorities of the region (Amin, 2020).

The financial dependency ratio of local governments has increased in the second year of the COVID-19 pandemic in the Central Java region. The average ratio had decreased at the beginning of the Covid-19 pandemic but increased in the second year of the Covid-19 pandemic, namely 70.45 per cent (2019), 69.36 per cent (2020), and 72.26 per cent (2021). However, the low level of independence reported indicates that the local governments are not willing to increase PAD but to rely more on the General Allocation Fund (Susilawati et al., 2018).

Local government is a non-profit organization, but its budget needs to be efficiently and effectively managed (Jamo, 2021), and the management process is usually better when PAD is higher. PAD effectiveness ratios generally decreased during the COVID-19 pandemic. The average ratios were 109.59 per cent (2019), 101.39 per cent (2020) and 95.17 per cent (2021). Community participation is necessary as the most significant contributor to a region's income at any given time (Benito et al., 2021). This is expected to be conducted by fulfilling all tax obligations to increase regional income and make it easier for the government to execute budgeted programs towards achieving the main goals of public services (Sutopo & Siddi, 2018).

The performance of the budget prepared by the local government can be measured by the stakeholders, such as the community and the high achievement of the things stated in the budget is usually used as the indicator to determine the success of local governments in implementing programs, including those related to capital expenditure (Sutopo & Siddi, 2018). The capital expenditure ratio has generally decreased after the COVID-19 pandemic. The average ratio figures are 16.77 per cent (2019), 11.81 per cent (2020) and 11.47 per cent (2021). The findings of this research are observed to be in line with the previous ones that spending on health and infrastructure increases economic growth, and this means the welfare level is expected to increase when there are higher capital expenditures (Silitonga et al., 2021). Moreover, the authority possessed by local governments can be used to enhance spending efficiency by increasing capital expenditures according to regional needs in order to attract investors with the ability to ultimately improve the community's welfare (Ghozali & Khoirunurrofik, 2020; A. Setiawan et al., 2021).

The limitation of this research is that it does not consider the agglomeration factor of an area, and it is recommended to be further analyzed due to its relationship with productivity (Sabatina, 2020; A. Setiawan et al., 2021) (Sabatini, 2020; A. Setiawan et al., 2021). It is also suggested that further research should be conducted to examine the factors affecting the performance of local governments, such as population, regional status, and capital expenditures (D. Setiawan & Winarna, 2022).

Conclusion and Recommendation

In general, local governments' financial performance declined during the Covid-19 pandemic in 2021. The findings showed that the PAD realized in 2021 ranged from 193.05 billion to 1,867.23 billion, with the enormous realization reported in Semarang Regency. It was also discovered that the fiscal decentralization ratio was between 10.86 and 46.75%, with the majority of the regencies and cities, 25, having less financial capability, which means there is a need for more efforts to explore the potential in those areas. Moreover, the dependency ratio was recorded between 61.66 and 81.27, with 12 regencies discovered to have a high dependency ratio. The results also showed that the PAD effectiveness ratio was between 53.07 and 147.52 and 4 regencies, an ineffective ratio, while the capital expenditure ratio ranged from 6.65 to 20.08.

Local governments must work harder to explore the potential of PAD in their respective regions. This can be done systematically by optimizing the use of village funds for infrastructure that supports the village's tourism potential and the potential of agricultural products and is used for community empowerment to increase productivity. So in the end, there will be a multiplier effect on the increase in PAD, as expected.

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