

Analysis of Local Government Financial Performance Based on the Method Value for Money

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ABSTRACT

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The purpose of this study was to determine the financial performance of the Makassar City Government based on the Value for Money (VFM) method, namely to analyze the measurement of economic ratios, efficiency, and effectiveness (3E). The type of research used is quantitative with a quantitative descriptive approach, namely collecting data, compiling, interpreting, and analyzing it to provide conclusions about local government financial performance using Value for Money. The data used is secondary data, namely data on the financial reports of the Regional Revenue and Expenditure Budget (APBD) of the Makassar City Government. The results indicate that the economic and efficiency ratios have met the Value for Money standard so that the budget can be more targeted and enjoyed by the community, while the effectiveness ratio has not met the Value for Money standard but there is still a need for continuous improvement in public services so that the effectiveness of government performance is achieved even better in the coming year. But the performance of Makassar City Government as a whole is good.

KEYWORDS: Value For Money, Economical, Efficiency, Effectiveness

1. INTRODUCTION

Financial performance is used as a measure of the success of the autonomous region in carrying out regional autonomy so that financial performance can determine the accountability of the authorities, where every rupiah of public money must be accounted for (accountability) to the people who have given their money to finance development and the wheels of government. As a form of accountability in the administration of the regional government as regulated in the Government Regulation of the Republic of Indonesia Number 12 of 2019 concerning Regional Financial Management, which aims to realize good governance (good governance) through implementation, participation, and accountability in regional financial management. Local governments are generally a racetrack and aim to produce good performance. Financial performance is a very important aspect to be analyzed since the implementation of performance-based budgeting. Regional governments are required to be able to produce good local government financial performance, namely accountability demands that are expected to reduce leakage, and waste, and detect activity programs that are not economically feasible.

An indication of the success of a region is an increase in service and welfare for a better and more prosperous society, more advanced democratic life, equity, justice, and a harmonious relationship between the center and regions and between regions. This situation will only be achieved if public sector institutions are managed by taking into account the approach Value for Money (VFM). method value for money (VFM) according to Mardiasmo (2002) is a measurement of financial performance used by the public sector which is the concept of managing public sector organizations based on three elements, namely economics, efficiency, and effectiveness. So method value for money is the core of performance measurement in public sector organizations. Government performance cannot be assessed only from the side

output generated, but must also consider input-output, and results together.

Several studies were conducted by several researchers, namely Harry, S.L, et al (2014) showed that the research results used the method Value for Money the financial performance of the local government in optimizing the budget must be more efficient and on target and must be increased again so that the community feels the results of autonomy, especially the nominal budget that is more in favor of the interests of the community. According to Isna, A. & Ayu, AP (2015) based on the results of research using the method value for money shows that the use of the budget is not economical because it does not meet the standards of value for money, analysis of efficiency ratios shows that the use of funds and the budget to achieve the work program is still not effective, and the ratio of effectiveness has increased and has been fulfilled in public satisfaction with the services provided. Meanwhile, research conducted by Evelyn, N.A.et al (2016) ie The findings reveals that the lack of skilled personnel in the procurement sector and inadequate measures for monitoring and evaluation of procurement policies to ensure Value for Money (VFM) are major challenges in public procurement. It is recommended that to ensure value for money, Management support for the VFM program at all administrative levels should be encouraged and procurement regulatory authorities in collaboration with public entities (Polytechnics) should ensure compliance through strict monitoring and evaluation of procurement policies to ensure VFM. The research conducted by Bajorek & Bevan (2015), namely the review found some evidence that pay is performance related (PRP) schemes can be effective across the three domains of the public sector for which evidence is available (health, education, and civil service), but findings within and between sectors are mixed, with scheme effectiveness often depending on scheme design and organizational context.

This research is different from this research, namely analyzing the financial performance of the Regional Government, especially in the City of Makassar by using the principle value for money in the context of measuring financial performance which is influenced by the ability of local governments to carry out their governance management mechanisms based on good planning, implementation, and control. Communities need good and accountable public services so that they can carry out their duties and responsibilities more efficiently and effectively in administering government, development, and protecting the public. Makassar City is one of the cities in the Province of South Sulawesi which has a Regional Revenue and Expenditure Budget (APBD) whose management is clear and the amount is increasing from 2017 to 2021. So the implementation of the APBD must pay more attention to budget discipline, both at the time of starting its implementation and at the end of its implementation period. APBD management must be planned as well as possible by the budget and time of implementation of activities to carry out the duties and responsibilities of government, development, and public services economically, efficiently, and effectively. Based on this, research was conducted by analyzing the financial performance of the Makassar City Government based on the method value for money.

1.1 Regional Financial Performance

Financial performance can be used as a measure of the success of autonomous regions in implementing regional autonomy. By looking at financial performance, it can be seen the accountability of the stakeholders, where every rupiah of public money must be accounted for by the people who have given their money to finance development and the wheels of government (Mahmudi, 2006). According to Mardiasmo (2018), to measure local government performance, it is necessary to know performance indicators as a basis for evaluating performance, requiring the following: 1) Planning and control systems, 2) Technical specifications and standardization, 3) Technical competence and professionalism, 4) Economic mechanisms and market mechanisms, and 4) Human Resources Mechanisms.

The conceptual framework of financial performance indicates that the main dimensions of financial performance studied include revenue collection performance, expenditure performance, and value for money performance. (Bukenya, 2014). The conceptual dimensions of financial performance include Revenue collection performance, expenditure performance, and financial accountability that focus on achieving value for money (Ewama, 2003), and the quality of accounting information is Reliable, Understanding, Relevant, Timeliness, and Accuracy for this study. The quality attributes were selected based on what is provided in the IAS Statement of Accounting Concepts (SAC 3, 1990), and (Barret, 2004).

A budget with a performance approach is a budget system that prioritizes efforts to achieve work results or outputs from planned cost allocations or specified inputs. Performance-based budgeting requires optimal output for allocated expenditures so that expenditures must be oriented or economical, efficient, and effective. (Halim, 2019).

1.2 Value for Money

According to Mardiasmo (2018), the Value For Money (VFM) approach is for local governments as public servants because its implementation will provide benefits; 1) the effectiveness of public services, in the sense that the services provided are right on target, 2) improving the quality of public services, 3) low service costs due to loss of inefficiency and savings in the use of resources (resources); 4) spending allocations that are more oriented towards public interest; and 5) increasing public costs awareness as the root of implementing public accountability.

The value-for-money audit conducted by the Director of Examination (auditor general) is a formal evaluation tool for government programs. It helps increase public accountability by providing information about government performance. Efficiency, effectiveness, and economy are the main components of achieving value for money. Efficiency is about ensuring that certain actions have been taken appropriate outputs have been produced, and that the ratio between inputs and outputs is the most favorable. Effectiveness is about ensuring that an action or investment of certain resources has achieved the desired result. The ultimate question is whether the desired results have been produced and the desired impact created and Economics is concerned with minimizing the cost of the resources acquired or used, paying attention to their appropriate quality. (Bukenya, 2014).

Mardiasmo (2009) reveals that value-for-money indicators are divided into two parts, namely cost allocation indicators (economic and efficiency) and service quality indicators (effectiveness). Efficiency indicators describe the relationship between resource input by an organizational unit and the resulting output. While the effectiveness indicators describe the range of consequences and impacts (outcomes) of program outputs in achieving program objectives. Mahmudi (2020) defines Value for Money as an appreciation of the value of money, this means that every rupiah must be properly valued and used as well as possible. Value for Money is the core of performance measurement in public sector organizations. Government performance cannot be assessed in terms of the output produced alone, but in an integrated manner, it must consider inputs, outputs, and outcomes together so that it truly describes the actual government performance.

Matti & Naeem (2012) explained that providing better public services at lower costs, also known formally as value for money (VfM), is often the main reason for procuring large infrastructure projects through public-private partnerships (PPPs). According to Malek & Gundaliya (2021) that for Government projects, Value for Money (VFM) is an important parameter underlying the procurement of projects through Public-Private Partnerships (PPP) by the public sector and the purpose of this paper is to identify and evaluate the perceptions of VFM factors influencing Indian road Projects carried out by the PPP.

1.3 Economical

Economical is closely related to the concept of cost to obtain input units, which should be obtained at lower prices, namely prices that are close to market prices. (Mahmudi, 2011). Mardiasmo (2009) adds that the economy has a relationship

between markets and inputs (cost of input) which is a form of savings practice by careful management to avoid waste. An activity is said to be economical if it can reduce or eliminate unnecessary costs. So Economics is related to the extent to which public sector organizations can minimize the input resources used, namely to avoid spending that is wasteful and no longer productive.

According to Adam Oliver (2013), the use of behavioral economics to inform policy has over the last few years been captured by those advocating push interventions. This method of regulation based on behavioral economics information is called caving, to suggest that, rather than nudging citizens, behavioral economics may be more appropriate for use in the public sector to help inform regulations that undermine harmful private sector activity.

1.4 Efficiency

Efficiency is related to the relationship between the output in the form of goods or services produced and the resources used to produce that output. (Mahmudi, 2011). Efficiency is the achievement of maximum output with certain inputs or the use of the lowest input to achieve certain outputs. According to Mardiasmo (2019), an activity is said to be economical if it can reduce or eliminate unnecessary costs. Efficiency has a relationship with the ratio of output resulting from the use of existing inputs which in this case is closely related to the concept of productivity. An activity can be said to be efficient if the results achieved are the result of the use of resources and funds to a minimum (spend well).

1.5 Effectiveness

According to Mahmudi (2011), effectiveness is related to the relationship between the output in the form of goods or services produced and the resources used to produce that output. Effectiveness is a measure of the ability to achieve certain goals or objectives that have been set or targeted, where the size of the ability depends on the goals or objectives that have been set or achieved according to their abilities. So effectiveness is the level

of achievement of program results with the targets set. Effectiveness according to Mardiasmo (2009) is a measure used to determine success or failure in achieving goals by comparing the outcomes and outputs of an organization.

The effectiveness of accounting information systems (AIS) in public sector organizations (PSO) is recognized as playing an important role in obtaining sustainable performance (SP). However, the effectiveness of AIS cannot reach SP by itself due to the rapid changes in the global economy. Accordingly, there is an increasing need for an evaluation framework deemed appropriate to the characteristics of the PSO to orient, manage, and assess the SIA operations towards achieving the SP. (Pham Quang Huy & Vu Kien Phuc, 2020).

Measurement of the performance of private sector organizations is directed at increasing profits, and satisfying owner needs, while the main goal of public sector organizations is to provide public services, so performance management in public organizations must be directed at implementing these goals. (Balabonienne & Vecerskiene, 2014). Performance measurement is a tool that describes organizational improvement because an organization can't act effectively without measuring its performance. The importance of performance measurement in public sector organizations is further enhanced by the new public management which aims to adapt the performance measurement methods applied in private organizations to organizations in the public sector so that performance can be regulated more effectively and so that user needs can be better met. (Ingrid & Giedre, 2015)

Value for Money describes the optimal relationship between costs/resources and the benefits/results delivered through process change entered through activities of becoming output required to trigger the result (results) the good one. Therefore, to measure the financial performance of the Regional Government how economical, efficient, and effective the financial performance of the Makassar City Regional Government is using the value-for-money approach can be seen in the image below:

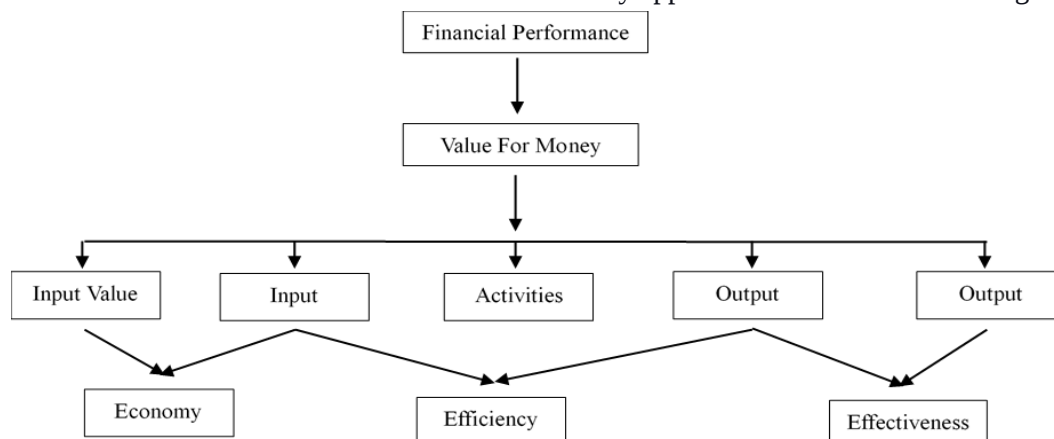


Figure 1. Research Framework

2. RESEARCH METHOD

2.1 Types of research

The type of research used is quantitative with a descriptive approach. This research was conducted in Makassar City, South Sulawesi Province. The data used is secondary data

that has been published by the Central Bureau of Statistics (BPS) Makassar City, South Sulawesi Province in 2017-2021 and literature studies. The literature study comes from report documents published by BPS.

2.2 Analysis Method

This study uses a quantitative descriptive method, namely collecting data, compiling, interpreting, and analyzing to provide conclusions about the financial performance of the Makassar City Government using value for money: (Mardiasmo, 2009)

$$1. \text{Economic Ratio} = \frac{\text{Expenditure realization} \times 100\%}{\text{Expenditure budget}}$$

Provision:

If < 100% means economical

If > 100% means it is not economical

If = 100% means economically balanced

$$2. \text{Efficiency Ratio} = \frac{\text{Expenditure realization} \times 100\%}{\text{Revenue realization}}$$

Provision:

If < 100% means efficiency

If > 100% means it is not efficient

If = 100% means balanced efficiency

$$3. \text{Effectiveness Ratio} = \frac{\text{Revenue realization} \times 100\%}{\text{Budget revenue}}$$

Provision:

If > 100% means effective

If, < 100% means it is not effective

If = 100% means balanced effectiveness

3. RESULTS AND DISCUSSION

The Regional Revenue and Expenditure Budget (APBD) is currently prepared based on a performance approach which is a budget system that prioritizes efforts to achieve performance results (output) from the cost allocation plan (input) used. So the Regional Government of Makassar City seeks to carry out supervision based on the principles of good management to achieve good governance.

Table 1. Revenue and Expenditure Budget Reports for the Regional Government of Makassar City (in rupiah)

Year	Expenditure Realization	Expenditure Budget	Revenue Realization	Budget revenue
2017	3.451.473.588	3.816.105.605	3.476.355.172	3.893.899.898
2018	3.526.081.002	4.117.588.616	3.700.838.038	4.298.108.616
2019	3.744.737.042	4.262.952.984	3.841.117.255	4.399.952.984
2020	2.969.786.003	4.217.870.000	3.323.662.287	4.238.870.000
2021	3.049.778.248	3.291.203.782	3.284.342.522	3.924.511.169

Source: Makassar City APBD Report, Makassar in Figures for 2017 to 2021.

Table 1 above is the data for the Regional Revenue and Expenditure Budget report and the Realization of Regional Income and Expenditures for Makassar City from 2017 to 2021 to measure local government performance using the principle of value for money, namely by using the principle of value for money, namely by using economic ratios, efficiency ratios, and effectiveness ratio.

3.1 Economic Ratio

Economic ratio is the level of costs incurred by the public sector to carry out services to the public. By using the efficiency formula, the economic ratios of Makassar City for 2017-2021 are as follows:

Table 2 Economic Ratio of Makassar City for 2017-2021

Year	Percent (%)	Information
2017	90,4%	Economical
2018	85,6%	Economical
2019	87,8%	Economical
2020	70,4%	Economical
2021	92,7%	Economical

Source: Processed Results from APBD Report Information, Makassar in Figures from 2017 to 2021

From the table above, the development of the economic ratios of Makassar City from 2017-2021 is included in the economic category, although the percentage fluctuated from 2017 to 2018, there was an increase of 4.8% from 90.4% to 85.6%. In 2018, it was 85.6%, which decreased to 87.8% in 2019, which was 2.2%. However, in 2019 it increased again in 2020 by 17.4%, and in 2020 it experienced another decrease of 22.3%. The Makassar

City Government has so far used the principle of a budget discipline system in every activity of implementing government programs. This is one way to avoid wasting the budget so that it can reduce expenses by achieving goals economically.

3.2 Efficiency Ratio

The efficiency ratio is the ratio of output/input related to predetermined performance standards.

Table 3 Makassar City Efficiency Ratio 2017-2021

Year	Percent (%)	Information
2017	99,3%	Efficiency
2018	95,3%	Efficiency
2019	97,5%	Efficiency
2020	89,4%	Efficiency
2021	92,9%	Efficiency

Source: Processed Results from APBD Report Information, Makassar in Figures from 2017 to 2021.

The efficiency ratio in Makassar City for the period 2017 to 2021 has fluctuated. In 2017 it increased from 99.3% to 95.3% in 2018 of 4%. From 2018 to 2019 it decreased by 2.2%, but from 2019 to 2020 it increased from 97.5% to 89.4% by 8.1%. In 2020 it decreased to 2021 by 3.5% from 89.4% to 92.9%.

The performance of the Makassar City government based on the results of the analysis of efficiency ratio calculations is in the efficiency category. The Makassar City Government carries

out developments such as infrastructure development and management of Human Resources, as well as technology improvements to manage natural resources to optimize revenue and increase efficiency for the coming year.

3.3 Effectiveness Ratio

The effectiveness ratio is the level of achievement of program results with predetermined targets.

Table 4 Effectiveness Ratio of Makassar City in 2017-2021

Year	Percent (%)	Information
2017	89,3%	Ineffective
2018	86,1%	Ineffective
2019	87,3%	Ineffective
2020	78,4%	Ineffective
2021	83,7%	Ineffective

Source: Processed Results from APBD Report Information, Makassar in Figures from 2017 to 2021.

From the table above, from 2017 to 2021 it shows that the performance of the Makassar City government is in the ineffective category because the actual revenue is smaller than the revenue budget. So to achieve effectiveness, the City Government of Makassar carries out policies through the development of each Development Area Sub-Unit which has determined the development location and the direction of activities that must be developed.

4. CONCLUSION

From 2017 to 2021, the economic ratio analysis shows that it is in the economic category, and experiences fluctuating growth. This shows that the utilization of the Makassar City government budget is economical and has met Value for Money (VFM) economic standards. The efficiency ratio analysis from 2017 to 2021 is in the efficiency category even though its development fluctuates and meets VFM efficiency standards. This shows that the use of budget funds to achieve work programs is appropriate. While the ratio analysis of effectiveness is in the category of ineffective and does not meet the standards of effectiveness. So it can be concluded that the performance of the Makassar City Government for the period 2017 to 2021 using the Value for Money principle is good specifically for economy and efficiency, but the effectiveness analysis has not fulfilled effectiveness.

Thus the City Government of Makassar is expected to pay more attention to and focus on the use of its expenditure budget, so that no waste of budget exceeds the predetermined target, and can make the budget efficient properly and appropriately to carry out work programs for each work unit of its agencies under the auspices of the City Government. Makassar. Each agency is expected to be able to increase the effectiveness of its services so that with a large enough output it is hoped that later it can increase effectiveness again because the effectiveness of a work program or activity can increase if the community experiences satisfaction with the services provided by the government of Makassar City.

As for the limitations in this research, the analysis of local government financial performance is only seen from the analysis of the Regional Budget Revenue Expenditure Report (APBD) with measurement value for Money, the year of observation is only 5 (five) years, namely 2017-2021. The suggestions in this research are to increase the number of years of observation, and area coverage, add indicators to measure local government financial performance by using other ratios such as regional financial dependency ratios, and tax effort ratios (tax business), and hope that future research can use other quantitative analysis tests such as PLS as a comparison material.

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