

# Analysis of Regional Financial Capacity in Regional Government in Kupang City 2014-2021

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**Abstract**— This research was conducted at the Kupang City Regional Finance and Asset Agency. The objectives of this research are: (1) To analyze the regional financial capabilities of the Kupang City Regional Government at the Kupang City Regional Finance and Asset Agency. (2) To analyze the regional financial capabilities of the Kupang City Regional Government at the Regional Finance and Asset Agency; (3) To analyze the regional finances of the Kupang City Regional Government at the Regional Finance and Asset Agency; (4) To analyze the regional financial capabilities of the Kupang City Regional Government at the Regional Finance and Asset Agency; (5) To analyze the regional financial capabilities of the Kupang City Regional Government at the Regional Finance and Asset Agency. This research uses a quantitative descriptive method with secondary data in the form of time series data from financial reports. The results of the study using the Fiscal Decentralization Degree Ratio show the criteria of less, the Regional Financial Dependence Ratio shows the criteria of very high, the Regional Financial Independence Ratio shows the criteria of moderate, the Regional Financial PAD Effectiveness Ratio shows the criteria of very effective. Meanwhile, the trend of the Fiscal Decentralization Degree Ratio shows a positive trend, the trend of the Regional Financial Dependency Ratio shows a positive trend, the trend of the Regional Financial Independence Ratio shows a positive trend, and the trend of the Regional Financial PAD Effectiveness Ratio shows a negative trend.

**Keywords**— Autonomous Region, Financial Ratio, Financial Report.

## I. INTRODUCTION

In carrying out regional government functions, finance is a very important factor because almost no government activities can be carried out without financial support. So, in the context of regional government administration, dependence on central government assistance must be minimized. By reducing dependence on the central government, Regional Original Income (PAD) is expected to become the largest source of finance in financing regional government expenditures. The regional capability in question is to what extent the region can explore its own financial resources to finance regional needs without always having to rely on assistance and subsidies from the central government (Afandi & Sianipar, 2016).

Describing how the region is able to finance each development activity by applying the principles of equality and justice by using regional potential is a reflection of the region's capacity to manage the budget, as evidenced in the Regional Revenue and Expenditure Budget (APBD). The preparation of the Regional Revenue and Expenditure Budget (APBD) must refer to the norms and principles of the budget, namely: Budget Transparency and Accountability, Budget Discipline, Budget Fairness, Budget Efficiency and Effectiveness and Budget Format (Sari, Woestho, & Handayani, 2021). The data in the table below, which is based on initial information from the Kupang City Regional Finance and Asset Agency, namely the data on the Realization of the Kupang City Regional Revenue and Expenditure Budget for the 2014–2021 fiscal year, is shown in the table below.

Table 1.1

Kupang City Revenue Budget Realization Report  
2014-2021

Year	PAD	Balancing Fund
2014	113.032.803.506	680.130.315.378
2015	145.154.792.156	700.571.560.350
2016	165.449.023.460	926.862.260.026
2017	229.137.473.528	822.687.901.806
2018	171.490.709.096	901.142.609.179
2019	185.051.575.342	874.896.730.300
2020	167.530.108.045	851.032.914.197
2021	166.266.172.886	822.804.473.213

Source: Kupang City Regional Finance and Asset Agency - data has been processed.

Based on data from the Kupang City BKAD, the Kupang City Regional Revenue and Expenditure Budget for the year (2017-2021), in terms of revenue, shows that the Balancing Fund still dominates regional revenue compared to Regional Original Income. It can be seen that the contribution of PAD to Regional Income from year to year has fluctuated, where in 2014 PAD contributed Rp. 113,032,803,506 to regional income, in 2015-2017 there was an increase in PAD, and also the contribution of balancing funds increased in 2015-2016, but in 2017 the contribution of balancing funds decreased. In 2018 it decreased to Rp. 171,490,709,096 but there was an increase in the contribution of the Regional Income Balancing Fund. In 2019 PAD again increased by Rp. 185,051,575,342 but the balancing fund decreased against Regional Income. In 2020 PAD again decreased to Rp. 167,530,108,045 but there was a decrease in the contribution of balancing funds to regional income. The PAD contribution declined once more in 2021, this time by Rp. 166,266,172,886. The table above demonstrates

that the balancing fund continues to be the primary source of regional income in comparison to PAD. This indicates the high fiscal dependence of the Kupang City Regional Government on the central government.

## II. THEORETICAL BASIS

### Regional Autonomy

Law No. 23 of 2014 concerning Regional Government substantially has a new spirit that is oriented towards accelerating the realization of community welfare through improving services, empowerment, and community participation, as well as increasing regional competitiveness by paying attention to the principles of democracy, equality, justice and the uniqueness of a region in the Unitary State System of the Republic of Indonesia. In the Republic of Indonesia's Unitary State System, Regional Autonomy is the right, power, and duty of autonomous regions to govern and administer their own government affairs and local community interests. When viewed from the spirit of the Regional Autonomy Law, the objectives of Regional Autonomy are outlined as follows (Thahir, 2019).

### Regional Finance

Basically, the sources of regional income consist of, Regional Original Income (PAD), balancing funds, regional loans, other legitimate receipts. PAD consists of taxes, levies, results of regionally owned companies, and results of managing regional assets such as profit shares, dividends and sales of regionally owned shares, as well as other loans. Legitimate PAD such as the results of the sale of regional fixed assets and giro services. The Regional Revenue and Expenditure Budget (APBD) is the authority of the regional government in order to achieve development targets within a year. The regional revenue or receipt and expenditure budget needs to be financially calculated and accounted for by the regional party. The regional revenue and expenditure budget (APBD) is a regional government work plan that includes all revenue or receipt and expenditure or expenditure of the regional government, both provincial, district and city in order to achieve development targets within a year which is stated in monetary units and approved by the DPRD in laws and regulations called regional regulations. APBD is a regional financial plan which is a program from the regional government which is implemented in the coming year with the aim of improving public services and the welfare of the regional community.

### Analysis of Regional Financial Capacity

Regional Financial Capacity is indicated by financial performance and can be used as a measure of regional success in regional autonomy. Regional financial capacity is the ability and authority of a region to explore sources of income in its region by looking at regional potentials which are regional wealth that can be used as a source of regional original income and is able to manage its finances appropriately to finance the implementation of its region independently. "The capacity of the regional government to fund its own government operations, development, and services to the community who

have paid taxes and levies as a source of income needed by the region" is known as regional financial independence. Financial Ratio Analysis is an effort to identify financial characteristics based on available financial reports. Conducting financial analysis requires certain measurements. The measurement that is often used is the ratio. According to Helfert, Ratio is a number that shows the relationship of an element with other elements in the financial report, while according to Munawir, ratio is a relationship or balance between one certain amount and another amount. To analyze the development of the financial capacity of the regional government recorded in the Regional Revenue and Expenditure Budget Realization Report (APBD), there are various financial ratio analyses carried out so that it can be clearly seen how much the development and financial capacity of the region is (Mamangkey, Manossoh, & Wokas, 2020).

### Analysis of the Degree of Fiscal Decentralization

Fiscal decentralization is an instrument to achieve the goals of the state, namely by providing good public services through a democratic decision-making process. Fiscal decentralization is realized through the delegation of authority to the regional government level in terms of spending, the authority to collect local revenues. Increasing local revenue is one way to improve the financial capacity of local governments to finance routine spending and development in their regions. Fiscal decentralization is the delegation of authority from the central government to local governments for decision-making and fiscal management. Fiscal decentralization looks at how much local governments depend on the central government to finance development, so to assess it, a measure called regional financial independence and regional financial capacity is needed (Handayani, Sari, & Sulistyowati, 2021).

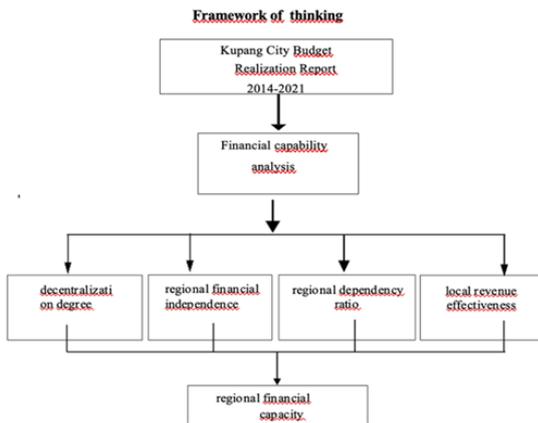
In table 1.2, the original regional income of Kupang City during 2014-2017 increased. Where in 2014 the realization of PAD was Rp. 113,032,803,506, in 2015 the realization of PAD was Rp. 145,154,792,156, in 2016 the realization of PAD was Rp. 165,449,023,460, and in 2017 the realization of PAD was Rp. 229,137,473,528. While in 2018-2021 it continued to decline. Where in 2018 the realization of PAD was Rp. 171,490,709,096, in 2019 the realization of PAD was Rp. 185,051,575,342 in 2020 PAD realization of Rp.167,530,108,045 and in 2021 PAD realization of Rp.166,266,172,886.

**Tabel 1.2**  
**Targets and realization of Kupang City's original regional income for 2014-2021**

Year	PAD Target	PAD Realization
2014	100.923.871.583,00	113.032.803.506,97
2015	125.125.330.759,00	145.154.792.156,20
2016	144.455.277.759,00	165.449.023.460,93
2017	207.804.696.398,00	229.137.473.528,55
2018	177.684.571.543,00	171.490.709.096,75
2019	195.336.408.043,00	185.051.575.342,52
2020	163.030.592.170,00	167.530.108.045,48
2021	190.782.982.758,00	166.266.172.886,05

Source: Kupang City BKAD, 2023

### III. FRAMEWORK



### IV. ANALYSIS RESULTS

**Table 1.3**  
Fiscal decentralization degree ratio of Kupang City Government 2014-2021

Year	Locally generated revenue	Total regional income	Presentation (%)	Criteria
2014	113.032.803.506,97	Not enough	Not enough	Not enough
2015	145.154.792.156,20	Not enough	Not enough	Not enough
2016	165.449.023.460,93	Not enough	Not enough	Not enough
2017	229.137.473.528,55	Not enough	Not enough	Not enough
2018	171.490.709.096,75	Not enough	Not enough	Not enough
2019	185.051.575.342,52	Not enough	Not enough	Not enough
2020	167.530.108.045,48	Not enough	Not enough	Not enough
2021	166.266.172.886,05	Not enough	Not enough	Not enough
<b>Average degree of fiscal decentralization</b>			19,41%	Not enough

(source: data processed by the author. 2023)

Based on table 1.3, the ratio of the degree of fiscal decentralization of Kupang City in 2014-2021 averaged 19.41% and was classified as lacking, in 2014 to 2017 there was an increase in the ratio of the degree of fiscal decentralization of 11.74% in 2014, 14.21% in 2015, 14.49% in 2016, and 19.82% but still categorized as lacking, then in 2018 there was a decrease of 14.66% and categorized as lacking, in 2019 there was another increase of 15.89% but still categorized as lacking, in 2020 there was a decrease of 14.84% with the criteria of lacking, then there was an increase again in 2021 by 15.37% but still categorized as lacking. The ability of the region to explore potential and manage regional income is still lacking.

**Table 1.4**  
Regional financial dependency ratio of Kupang City Government 2014-2021

Year	Balancing funds	Total regional income	Presentation	Criteria
2014	680.130.315.378,00	962.221.151.821,97	70,68%	Very high
2015	700.571.560.350,00	1.020.930.686.935,20	68,62%	Very high
2016	926.862.260.026,00	1.141.379.963.658,93	81,20%	Very high
2017	822.687.901.806,00	1.156.105.794.118,85	71,16%	Very high
2018	901.142.609.179,00	1.169.535.197.600,75	77,05%	Very high
2019	874.896.730.300,00	1.164.514.406.237,52	75,12%	Very high
2020	851.032.914.197,00	1.128.428.149.265,37	75,41%	Very high
2021	822.804.473.213,00	1.081.199.704.147,59	76,10%	Very high
<b>Average regional financial dependence</b>			<b>84,81%</b>	<b>Very high</b>

(source: data processed by the author. 2023)

Based on the calculation of the dependency ratio in table 1.4 above, the average financial dependency of the Kupang City area in 2014-2021 was 84.81% and was classified as very high, in 2014 the financial dependency of the Kupang City area was 70.68% with very high criteria, in 2015 there was a decrease of 68.62% with very high criteria, in 2016 there was an increase again of 81.20% and was categorized as very high, in 2017 there was a decrease of 71.16% with very high criteria, in 2018 there was an increase again of 77.05% with a very high category, in 2019 it decreased again by 75.12% with very high criteria, in 2020 75.41% rose again to 75.41% and was categorized as very high, in 2021 the financial dependency of the Kupang City area increased again by 76.10% and was categorized as very high tall.

### V. CONCLUSION

Based on research and discussion regarding the financial capacity of the regional government in Kupang City in 2014-2021, the following conclusions can be drawn regarding the analysis of regional financial capacity in the Kupang City regional government in 2014-2021:

1. The ratio of the degree of fiscal decentralization in 2014-2021 obtained results with less criteria, this illustrates that the performance of the regional government in increasing the financial capacity of the regional government in financing spending and development in Kupang City is still lacking.
2. The financial dependency ratio of the Kupang City region in 2014-2021 obtained results with very high criteria, indicating that the performance of PAD and other regional income sources is still very high and not optimal in financing regional development activities, so that the region is still very dependent on government subsidies through Balancing Funds.
3. The ratio of regional financial independence of Kupang City in 2014-2021 obtained results with moderate criteria, this shows that performance is still moderate with a percentage of 20.38% so that it has a high dependence on central government assistance through balancing funds in implementing regional autonomy.
4. The effectiveness ratio of the original regional income of Kupang City in 2014-2021 obtained results.

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