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Analysis of Regional Government Financial Management Performance in Banggai Islands Regency, 2021–2025

Liswan Rusman[1]*, Umar[2], Mastia M Halimu[3]
[1]Program Studi Manajemen, Fakultas Ekonomi, Universitas Tompotika Luwuk Banggai, Indonesia
[2]Program Studi Bisnis Digital, Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Palu, Indonesia
[3]Program Studi Manajemen, Fakultas Ekonomi,Universitas Tompotika Luwuk Banggai, Indonesia

***Corresponding Author**: adeliswan1206@gmail.com

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ABSTRACT

This study aims to analyze the performance of regional revenue and expenditure management in Banggai Islands Regency during the 2021–2025 period. The study employed a descriptive quantitative approach by analyzing the Regional Government Financial Statements (LKPD) for 2021–2025. The data were obtained from the Regional Revenue, Finance, and Asset Management Agency (BPKAD) of Banggai Islands Regency and analyzed using indicators including the fiscal independence ratio, regional financial efficiency ratio, growth ratio, effectiveness ratio, variance analysis, and expenditure harmony ratio. The results show that the level of fiscal independence was low, while regional financial efficiency was categorized as less efficient. The growth of regional revenue and expenditure fluctuated during the study period. Regional revenue effectiveness was categorized as moderately effective. The expenditure variance resulted in a negative variance, while the expenditure harmony ratio indicated that significant disparities remained among the components of regional expenditure.

INTRODUCTION

One of the objectives of fiscal decentralization is to encourage local governments to utilize the authority granted to them to become more independent, efficient, effective, and accountable in improving regional financial management and development planning. Good local government performance is often reflected in sound regional financial management. One of its indicators is the ability of local governments to utilize available resources to strengthen fiscal capacity, reduce dependence on transfer revenues, and develop broader and more independent initiatives to plan and implement development based on regional needs (Nadofah et al., 2025). Therefore, improving the performance of regional financial management is crucial and essential.

However, in practice, most regions continue to face various challenges in improving financial management performance, particularly in increasing regional revenues and managing regional expenditures to independently finance infrastructure development and public facilities.

Based on the fiscal capacity map issued by the Ministry of Home Affairs in 2025, approximately 90% of the 546 regencies, cities, and provinces had low fiscal capacity. Furthermore, the Association of Indonesian Regency Governments (APKASI) reported that 39, or 7.2%, of the 514 regencies and cities had very low fiscal capacity (Kompas TV, 2026). Nadofah et al. (2025) found that over the past five years, the average contribution of locally generated revenue (PAD) to total regional revenue was only approximately 28.76%, while transfer funds accounted for 65.71%, and other revenues contributed 5.53%.

In recent years, Banggai Islands Regency has also faced similar challenges. Based on the realization data of the Regional Revenue and Expenditure Budget (APBD) presented in the Regional Government Financial Statements (LKPD) of Banggai Islands Regency for 2021–2025, the average growth of locally generated revenue (PAD) was approximately 10.88%, while its average contribution to total regional revenue was only 4.88%. In terms of regional expenditure, operating expenditure accounted for approximately 66.98%, capital expenditure 15.30%, unexpected expenditure 0.06%, and transfer expenditure 18.92%. Meanwhile, the average growth of regional revenue was approximately 0.86%, while regional expenditure grew by approximately 8.10%. These figures indicate an anomaly, in which the broad, real, and accountable authority granted through decentralization has not yet been effectively translated into optimal regional revenue and expenditure management performance. At the same time, the increasing demands and needs for regional development require regional revenue and expenditure to be managed efficiently, effectively, transparently, and accountably.

Therefore, from the perspective of regional financial management, assessing the extent to which local governments are able to manage regional revenues and expenditures optimally can be conducted using regional financial ratios. Although the measurement of local government financial performance using regional financial ratios has been widely conducted, previous studies have tended to be partial, with limited analysis connecting ratio values to the phenomena occurring in the respective regions. Furthermore, previous studies have generally focused on regencies and cities with relatively substantial sources of regional revenue. In contrast, this study provides a more comprehensive analysis by focusing on a region with relatively limited revenue sources. Therefore, this study remains highly relevant and necessary to provide an empirical basis for the Government of Banggai Islands Regency in improving regional financial management both currently and in the future.

METHODS

This study employed a descriptive quantitative approach. The data were obtained from the Regional Government Financial Statements (LKPD) of Banggai Islands Regency for the 2021–2025 fiscal years. The financial data were analyzed using several regional financial performance indicators, including the fiscal independence ratio, regional financial efficiency ratio, growth ratio, effectiveness ratio, expenditure variance analysis, and expenditure harmony ratio. These indicators were used to assess the performance of regional revenue and expenditure management and to identify the level of fiscal independence, efficiency, effectiveness, growth, and expenditure allocation of the Government of Banggai Islands Regency during the study period.

RESULTS

Fiscal Independence Ratio

Table 1. Fiscal Independence Ratio of Banggai Islands Regency, 2021–2025

Description	2021	2022	2023	2024	2025
Fiscal Independence Ratio	4.37	4.38	5.28	5.48	7.68
Performance	Very Low	Very Low	Very Low	Very Low	Very Low
Relationship Pattern	Instructive	Instructive	Instructive	Instructive	Instructive
Average			5.44		

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 1, the fiscal independence ratio of Banggai Islands Regency during the 2021–2025 period increased consistently each year, indicating an increase in locally generated revenue (PAD) over the study period. A relatively significant increase occurred in 2025, which was attributable to the optimization of revenue collection and adjustments to the rates of several local tax and retribution objects, as stipulated in Banggai Islands Regency Regional Regulation No. 5 of 2023 concerning Regional Taxes and Regional Levies. This adjustment represents a consequence of the implementation of Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD). However, the contribution of locally generated revenue (PAD) to transfer revenue remained very low, as reflected in the instructive relationship pattern. This indicates that the regional government remained highly dependent on transfer revenues.

Regional Financial Efficiency Ratio (RFER)

Table 2. Regional Financial Efficiency Ratio (RFER) of Banggai Islands Regency, 2021–2025

Year	**RFER (%)**	**Criteria**
2021	90.37	Less Efficient
2022	100.39	Inefficient
2023	100.56	Inefficient
2024	100.17	Inefficient
2025	104.45	Inefficient

Year	RFER (%)	Criteria
Average	**99.18**	**Less Efficient**

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 2, the calculation of the Regional Financial Efficiency Ratio (RFER) of Banggai Islands Regency for the 2021–2025 period shows an efficiency level indicating that actual expenditure tended to adjust to or follow the amount of regional revenue and, in several years, even exceeded regional revenue. In 2021, the RFER was 90.37%, indicating that actual expenditure was lower than actual regional revenue. Nevertheless, the performance was categorized as less efficient. Meanwhile, for four consecutive years from 2022 to 2025, actual expenditure exceeded actual regional revenue, as indicated by ratios above 100%. This condition demonstrates that regional expenditure management remained inefficient because expenditure absorption exceeded the amount of regional revenue realized.

Effectiveness Ratio

Table 3. Effectiveness Ratio of Locally Generated Revenue (PAD) and Regional Revenue, 2021–2025

Year	PAD Effectiveness Ratio (%)	Criteria	Regional Revenue Effectiveness Ratio (%)	Criteria
2021	94.09	Moderately Effective	100.82	Highly Effective
2022	101.90	Highly Effective	100.46	Highly Effective
2023	100.65	Highly Effective	96.26	Moderately Effective
2024	88.69	Less Effective	96.24	Moderately Effective
2025	81.76	Less Effective	94.77	Moderately Effective
Average	93.42	Moderately Effective	97.71	Moderately Effective

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 3, the effectiveness ratios of locally generated revenue (PAD) and regional revenue in Banggai Islands Regency during the 2021–2025 period showed a fluctuating trend. Regarding the effectiveness of PAD, actual revenue realization in 2021 tended to approach the predetermined target and was therefore categorized as moderately effective. In 2022 and 2023, PAD realization exceeded the established targets, resulting in a highly effective classification. However, in 2024 and 2025, PAD realization was considerably below the predetermined targets and was consequently categorized as less effective.

Meanwhile, the effectiveness of overall regional revenue in Banggai Islands Regency showed that in 2021 and 2022, actual revenue realization exceeded the predetermined targets, resulting in a highly effective classification. In contrast, during the subsequent three consecutive years (2023–2025), actual revenue realization did not reach the established targets, although it remained relatively close to them. Therefore, the effectiveness of regional revenue during this period was categorized as moderately effective. Overall, the average regional revenue effectiveness ratio of 97.71% indicates that regional revenue management during the 2021–2025 period was moderately effective.

Growth Ratio

Table 4. Growth Ratio of Locally Generated Revenue (PAD) and Regional Revenue of Banggai Islands Regency, 2021–2025

Year	PAD Growth Ratio (%)	Criteria	Regional Revenue Growth Ratio (%)	Criteria
2021	-3.89	Very Low	3.65	Very Low
2022	-4.75	Very Low	-4.90	Very Low
2023	24.69	Moderate	1.53	Very Low

Year	PAD Growth Ratio (%)	Criteria	Regional Revenue Growth Ratio (%)	Criteria
2024	25.69	Moderate	24.17	Moderate
2025	12.67	Low	-20.14	Very Low
Average	10.88	Low	0.86	Very Low

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 4, the growth ratio of locally generated revenue (PAD) in Banggai Islands Regency during the 2021–2025 period showed a fluctuating trend. Negative growth occurred in 2021 at -3.89% and continued at -4.75% in 2022. PAD growth then increased significantly to 24.69% in 2023 and further increased to 25.69% in 2024. However, PAD growth declined again to 12.67% in 2025. The average PAD growth during the study period was 10.88%, which was categorized as low.

Meanwhile, the growth ratio of regional revenue also fluctuated considerably. In 2021, regional revenue recorded relatively low positive growth of 3.65%, followed by negative growth of -4.90% in 2022. Growth returned to positive territory at 1.53% in 2023 and increased substantially to 24.17% in 2024. However, in 2025, regional revenue experienced a sharp decline of -20.14%. Overall, the average growth of regional revenue was only 0.86%, which was categorized as very low.

Regional Expenditure Variance Analysis

Table 5. Regional Expenditure Variance of Banggai Islands Regency, 2021–2025

Fiscal Year	Regional Expenditure Variance (IDR)	Savings Ratio (%)	Budget Absorption Ratio (%)
2021	85,023,101,808.00	9.89	90.11
2022	80,797,442,110.00	8.98	91.02
2023	87,904,543,351.00	9.38	90.62
2024	90,620,056,561.93	8.18	91.91
2025	55,670,381,055.80	6.10	93.90
Average	61,897,217,676.40	8.51	91.51

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 5, the regional expenditure variance during the 2021–2025 period indicates that the difference between budgeted and realized expenditure fluctuated. In 2021, the variance between the regional expenditure budget and its realization was relatively substantial at IDR 85,023,101,808.00. This decreased to IDR 80,797,442,110.00 in 2022, before increasing to IDR 87,904,543,351.00 in 2023 and reaching its highest level of IDR 90,620,056,561.93 in 2024. The variance subsequently declined considerably to IDR 55,670,381,055.80 in 2025.

On average, the difference between budgeted and realized regional expenditure amounted to IDR 61,897,217,676.40, representing an average savings rate of 8.51%, while the average budget absorption rate reached 91.51%. These findings indicate that the regional government was able to avoid spending the entire allocated expenditure budget, resulting in a relatively consistent level of budget savings throughout the study period.

Regional Expenditure Growth Ratio

Table 6. Regional Expenditure Growth Ratio of Banggai Islands Regency, 2021–2025

Year	Regional Expenditure Growth Ratio (%)	Criteria
2021	-4.23	Very Low
2022	5.64	Very Low

Year	Regional Expenditure Growth Ratio (%)	Criteria
2023	34.54	Moderate
2024	21.28	Moderate
2025	-16.73	Very Low
Average	8.10	Very Low

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 6, the regional expenditure growth ratio of Banggai Islands Regency during the 2021–2025 period showed significant fluctuations. In 2021, regional expenditure experienced negative growth of -4.23%. Growth then turned positive at 5.64% in 2022 and increased substantially to 34.54% in 2023. In 2024, expenditure growth declined to 21.28%, before experiencing a sharp contraction of -16.73% in 2025.

Overall, the average growth of regional expenditure during the 2021–2025 period was 8.10%, which was categorized as very low. This relatively low average growth indicates that regional expenditure did not experience sustained expansion throughout the study period and was strongly influenced by fluctuations in the regional fiscal capacity and revenue conditions.

Regional Expenditure Harmony Ratio

Table 7. Regional Expenditure Harmony Ratio of Banggai Islands Regency, 2021–2025

Expenditure Component	2021	2022	2023	2024	2025	Average
1. Operating Expenditure Ratio	63.03	65.45	64.44	66.76	75.22	66.98
Performance	Harmonious	Harmonious	Harmonious	Harmonious	Harmonious	Harmonious
2. Capital Expenditure Ratio	15.74	15.53	16.17	16.88	12.17	15.30
Performance	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious
3. Unexpected Expenditure Ratio	0.03	0.09	0.13	0.03	0.06	0.07
Performance	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious
4. Transfer Expenditure Ratio	21.10	18.88	19.27	16.33	19.03	18.92
Performance	Less Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious	Not Harmonious

Source: Regional Government Financial Statements (LKPD) of Banggai Islands Regency (2026), processed by the authors.

Based on Table 7, the results of the expenditure harmony ratio analysis show that the allocation of operating expenditure tended to increase during the study period. A significant increase occurred from 63.03% in 2021 to 75.22% in 2025. This increase was primarily attributable to the rising allocation of personnel expenditure. Meanwhile, the allocation of capital expenditure, unexpected expenditure, and transfer expenditure fluctuated during the 2021–2025 period, with their respective allocations remaining considerably lower than operating expenditure. This expenditure composition indicates that the regional budget was predominantly oriented toward financing routine government operations rather than productive expenditure, particularly capital expenditure that can directly support infrastructure and regional economic development.

DISCUSSION

Fiscal Independence Ratio

The fiscal independence ratio describes the extent to which a local government depends on the central government in financing regional government activities and development. Based on the analysis of the fiscal independence ratio during the 2021–2025 period, Banggai Islands Regency was categorized as having an instructive relationship pattern, indicating a very low level of fiscal independence and a high degree of dependence on the central government. This condition demonstrates that transfer revenues contributed substantially more to total regional revenue than locally generated revenue (PAD).

The findings indicate that the low contribution of PAD has resulted in the Government of Banggai Islands Regency remaining highly dependent on transfer revenues when planning and financing regional development. This condition limits the fiscal space available to the local government to determine development priorities based on local aspirations, initiatives, and needs.

These findings are consistent with Nurazhari (2024), who found that an instructive relationship pattern reflects a strong dependence of local governments on the central government, particularly in implementing regional autonomy. Similarly, Ullo et al. (2023) stated that an instructive relationship indicates a low fiscal independence ratio, meaning that the influence of the central government on local governments in financing development remains very strong.

Regions with low levels of fiscal independence generally have limited capacity to independently plan and implement development programs according to their own aspirations, initiatives, and regional needs. Nadofah et al. (2025) further stated that high fiscal dependence can reduce the capacity of local governments to plan and implement development programs that are responsive to local needs and can consequently hinder the effectiveness and accountability of regional financial management.

Regional Financial Management Efficiency Ratio (RFER)

The Regional Financial Management Efficiency Ratio (RFER) illustrates the extent to which regional expenditure is aligned with the revenue capacity of a local government. The results of the analysis for Banggai Islands Regency during the 2021–2025 period indicate that regional financial management was categorized as less efficient. This finding indicates that actual regional expenditure tended to be disproportionate to the available regional revenue capacity.

The study found a tendency for the Government of Banggai Islands Regency to determine and allocate regional expenditure largely based on the amount of regional revenue, particularly transfer revenues from the central government. When transfer revenues increased, regional expenditure tended to increase accordingly, and vice versa. Ideally, regional expenditure budgets should be formulated by considering the actual revenue capacity of the region while applying appropriate expenditure analysis standards, rather than simply increasing or reducing expenditure in response to changes in revenue.

This condition also reflects weaknesses in regional expenditure planning, which may result in underfinancing or overfinancing of programs and activities. In addition, the relatively limited capacity in program formulation and budgeting may cause expenditure planning to rely heavily on the previous year's budget without sufficiently considering the actual and projected revenue capacity of the region.

This finding is consistent with Ferian and Achmad (2024), who stated that a lower regional financial efficiency ratio indicates better local government financial performance. Conversely, a higher ratio indicates that the local government has not optimally managed regional expenditure in accordance with its revenue capacity. Mahmudi (2019) also emphasized that inefficient and ineffective regional expenditure management may result in the excessive use of budgetary resources and ultimately lead to budgetary waste.

Effectiveness Ratio of Locally Generated Revenue (PAD) and Regional Revenue of Banggai Islands Regency, 2021–2025

The effectiveness ratio is used to assess the extent to which a local government is able to realize revenue compared with the predetermined target. This ratio serves as an indicator of local government performance in mobilizing and collecting regional revenue. Julaeha and Penangsang (2024) stated that the higher the effectiveness ratio, the better the financial performance of the local government in mobilizing regional revenue sources.

Based on the effectiveness ratios of locally generated revenue (PAD) and total regional revenue of Banggai Islands Regency, a ratio above 100% is categorized as **highly effective**. Theoretically, this indicates that actual revenue realization exceeded the predetermined target. Meanwhile, ratios below 100%, categorized as moderately effective or less effective, indicate that revenue realization did not reach the predetermined target or remained relatively close to the target. A higher effectiveness ratio reflects a greater capacity of the local government to manage and optimize available revenue sources. Wulandari and Lathifah (2025) stated that revenue realization exceeding the predetermined target indicates that local government performance is relatively good in planning, optimizing, identifying, and managing existing regional revenue potential. Similarly, Muttaqin (2025) argued that a high effectiveness ratio indicates that local governments have adequate capacity and commitment to optimize locally generated revenue from various sectors. Conversely, a lower effectiveness ratio indicates that local governments continue to face various constraints and problems in managing their revenue sources.

This study found that the main constraints affecting the effectiveness of regional revenue management in Banggai Islands Regency were generally associated with suboptimal revenue intensification and extensification, limited revenue potential and types of revenue sources, vulnerability to policy and regulatory changes, inadequate human resources, collection and payment mechanisms that have not yet been fully modernized, potential revenue leakage, weak supervision, and revenue targets that are not yet fully based on actual revenue potential.

These findings are consistent with Nabila et al. (2025), who stated that the effectiveness of locally generated revenue collection can be influenced by accountability and transparency in regional financial management as well as the quality of the local government bureaucracy. Petonengan et al. (2025) identified several factors affecting regional revenue effectiveness, including limited human resources and budgetary support, as well as low public participation in reporting and fulfilling their financial obligations. Hariyanto et al. (2022) further explained that although the effectiveness of PAD can be optimized, several PAD components continue to face challenges related to collection procedures, mechanisms and regulations, strong administrative systems, accurate databases, and effective monitoring systems.

Regional Revenue Growth Ratio

Based on the growth ratios of locally generated revenue (PAD) and total regional revenue of Banggai Islands Regency during the 2021–2025 period, both indicators demonstrated fluctuating growth trends and were classified into very low, low, and moderate performance categories. This condition indicates that the ability of the Government of Banggai Islands Regency to maintain and increase regional revenue remains limited.

The growth trend of regional revenue is also closely associated with the effectiveness of revenue collection. A higher effectiveness ratio generally indicates better financial performance in mobilizing regional revenue sources. In other words, an increase in actual regional revenue tends to generate positive revenue growth, whereas a decline in revenue realization may result in negative growth.

The study found that negative regional revenue growth was primarily associated with declining revenue realization, which was influenced by economic conditions and relatively reduced community income. These conditions affected the collection of several PAD components, particularly during 2021 and 2022 amid the COVID-19 pandemic. This finding is consistent with Majid (2025), who stated that economic conditions and community income significantly influence locally generated revenue. Pratiwi and Purwanti (2024) similarly found that economic activity and economic conditions have a significant influence on increasing locally generated revenue.

Other factors identified in this study include limited personnel responsible for collecting local taxes and levies, inadequate facilities and infrastructure to support revenue intensification, and reductions in central government transfer revenues, particularly in 2024 and 2025. These factors contributed to the substantial decline in regional revenue realization during the latter part of the study period.

Regional Expenditure Growth Ratio

The growth ratio is used to analyze and evaluate changes in regional financial performance and identify trends over a particular period, whether performance is improving or declining (Dewi et al., 2026). Based on the calculation of the regional expenditure growth ratio for Banggai Islands Regency during 2021–2025, expenditure growth showed considerable fluctuations. Positive growth occurred during 2022 and 2023, whereas expenditure growth declined in 2021, 2024, and 2025.

The decline in expenditure growth was influenced by external factors, particularly the policy of budget reallocation and refocusing during the COVID-19 response, as well as budget efficiency policies and reductions in Transfers to Regions (TKD) in 2024 and 2025. These policies directly affected the realization of regional expenditure in Banggai Islands Regency.

This condition demonstrates that the ability of Banggai Islands Regency to maintain and increase regional expenditure remains highly dependent on transfer revenues, in addition to the need to implement expenditure efficiency measures. Such conditions are common in regions with limited fiscal space, particularly during periods of fiscal adjustment or crisis. Dewi et al. (2026) stated that regional expenditure budgets tend to fluctuate during periods of crisis.

Mahsun (2006), as cited in Abd Kadir et al. (2025), explained that regional expenditure tends to increase or decrease depending on macroeconomic conditions, exchange-rate movements, and government policy priorities. Therefore, low expenditure realization should not necessarily be interpreted as poor financial performance when the decline results from the reallocation of expenditure toward higher-priority programs.
Internal factors may also contribute to negative expenditure growth, including weak budget planning, suboptimal program implementation, and unrealistic budget targets. Waldani et al. (2024) found that although regional expenditure efficiency may improve, inaccurate determination of budget targets relative to actual realization can result in negative expenditure growth.

Regional Expenditure Variance Analysis

Expenditure variance analysis provides an overview of the extent to which actual expenditure corresponds to the predetermined budget. Based on the analysis, actual regional expenditure in Banggai Islands Regency during the 2021–2025 period consistently remained below the allocated budget, resulting in a negative expenditure variance. This condition may indicate two possibilities: the existence of expenditure efficiency or the presence of obstacles in budget absorption.

Normatively, several previous studies have interpreted a relatively large difference between budgeted and realized expenditure as an indication of budget efficiency. Hati and Sari (2025), for example, stated that the greater the difference between actual expenditure and the predetermined budget, the greater the potential for budget savings. However, a large negative expenditure variance does not necessarily indicate that budget management was fully efficient. A substantial negative variance may also indicate difficulties in absorbing the allocated budget.

This study found that the substantial expenditure variance over the five-year period was generally attributable to several factors. **First**, weaknesses in budget planning resulted in inaccurate expenditure estimates. **Second**, the capacity to implement programs and activities was not optimal. **Third**, regional expenditure was subject to reallocation and refocusing policies imposed by the central government, particularly in 2024 and 2025.

These findings are consistent with Said et al. (2025), who stated that a large negative expenditure variance can be caused by weaknesses in budget planning and implementation, the capacity of budget management personnel, technical and administrative factors, and external factors such as delays in the disbursement of transfer funds.

Conversely, a reduction in the negative variance—indicating that actual expenditure increasingly approaches the allocated budget—may reflect improvements in budget planning, implementation of priority programs, and adjustment of expenditure capacity to actual needs. Alfiani et al. (2024) emphasized that optimal budget realization requires strict fiscal management, particularly through minimizing budget deviations that frequently arise from unrealistic planning.

Regional Expenditure Harmony Ratio

The regional expenditure harmony ratio provides an overview of the balance in the allocation of different expenditure components. Based on the analysis, the proportion of operating expenditure was substantially higher than the allocations for other expenditure components and was therefore categorized as harmonious. Meanwhile, the other expenditure components were categorized as not harmonious. The expenditure composition indicates that the allocation among expenditure components has not yet been balanced and proportional, as the regional budget remains heavily dominated by a single expenditure category.
The findings show that regional expenditure in Banggai Islands Regency during the 2021–2025 period was dominated by operating expenditure, which consistently had the largest budget allocation. The relatively high allocation for operating expenditure was primarily attributable to the increasing number of civil servants, including Civil Servants (PNS) and Government Employees under Employment Agreements (PPPK). This condition has consequently reduced the proportion of the budget available for other expenditure components.

This finding is consistent with Riswati and Bukhori (2023), who stated that most local government expenditure remains dominated by routine expenditure. Furthermore, the allocation of capital expenditure in Banggai Islands Regency tended to decline over the study period, potentially slowing infrastructure development and the provision of public facilities and services. Hati and Sari (2025) found that an excessive proportion of operating expenditure in local governments can create difficulties in financing infrastructure development because it reduces the proportion allocated to capital expenditure.

Marlina and Akbar (2023) further stated that regions that focus more heavily on routine expenditure than on productive investment may have limited capacity to support long-term development. Capital expenditure is particularly important because it supports public infrastructure development and is related to **mandatory spending**. Under Article 147 of Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), local governments are required to allocate a minimum of 40% of their budget for public infrastructure.

On the other hand, operating expenditure remains important for maintaining government operations and the continuity of public services. Nevertheless, the implementation of Law No. 1 of 2022 concerning HKPD also establishes a maximum limit for personnel expenditure of 30% by 2027. Therefore, local governments need to continuously evaluate expenditure policies and management practices to prevent widening disparities among expenditure components and to ensure a more balanced allocation between routine government operations and productive development expenditure.

CONCLUSION

Based on the analysis of the financial management performance of the Regional Government of Banggai Islands Regency during the 2021–2025 period, several conclusions can be drawn. The fiscal independence ratio was categorized as very low, while the regional financial management efficiency ratio was categorized as less efficient. Furthermore, the effectiveness ratio and regional revenue growth ratio showed fluctuating performance throughout the study period. The regional expenditure growth ratio was categorized as very low, while the expenditure variance analysis showed substantial differences between the budgeted and realized expenditure.

Overall, the financial management performance of the Regional Government of Banggai Islands Regency during the 2021–2025 period has not yet demonstrated effective, efficient, consistent, and sustainable performance. The findings indicate that the regional government continues to face challenges related to fiscal independence, revenue optimization, expenditure efficiency, budget absorption, and the balance of expenditure allocation.

RECOMMENDATIONS

The Government of Banggai Islands Regency should optimize potential sources of locally generated revenue (PAD) by strengthening revenue intensification and extensification, developing local economic potential, and improving the management of existing regional revenue sources. The government should also improve the planning of regional revenue and expenditure budgets so that they are prepared accurately, rationally, and measurably based on actual fiscal capacity and regional development priorities.

Furthermore, the regional government needs to strengthen the capacity to implement programs and activities by ensuring that their implementation is aligned with available budget resources and measurable performance targets. It is also necessary to formulate and establish a more proportional allocation of the regional budget among expenditure components in accordance with applicable laws and regulations. Particular attention should be given to maintaining an appropriate balance between operating expenditure and productive expenditure, especially capital expenditure, to support infrastructure development, public services, and sustainable regional economic growth.

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