Analyzing Government Financial Performance as a Basis for Sustainable Development. Case Study on The Government of Klaten

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ABSTRACT

Financial ratio analysis in financial statements is useful for evaluating the effectiveness of the regional autonomy system. This study is a descriptive quantitative research. The research subject is the Klaten Regency Government, while the object of research is the Realization Report and the Regional Revenue and Expenditure Budget for the 2019-2022 period. Based on the analysis of the financial performance of the Klaten Regency government during the 2019-2022 budget period, it can be seen that the effectiveness ratio is very high, however, there are several indicators that show imbalances in financial management. One of them is the low activity ratio, which shows that more expenditure is allocated for operations than for capital investment. In addition, the very low independence ratio is also a concern, indicating that dependence on external resources is very high. To overcome this problem, concrete steps need to be taken including revenue diversification, improving financial management, spending efficiency, infrastructure development, human resources and strengthening the supervisory system in an effort to improve financial performance and sustainable development in Klaten Regency. The implications of the research highlight the need for budget policy reformulation and the strengthening of PAD management to enhance regional financial independence.

INTRODUCTION

In regional autonomy, there have been significant changes in how regional finances in Indonesia are organized and managed. In implementing regional autonomy, it is important to have a decentralization system that is clear, transparent, and accountable to the entire community (Undang-Undang (UU) Nomor 22 Tahun 1999, n.d.). Regional autonomy gives local governments the right, ability, and responsibility to manage government affairs and the interests of their communities in accordance with applicable law. One of the aspects affected is the

organization of regional finances. One of the crucial elements of the implementation of regional autonomy and decentralization that requires careful regulation is regional financial management, especially in terms of the Regional Revenue and Expenditure Budget (RREB)(Putri & Kabib, 2018).

Municipal administrations bear the responsibility of demonstrating accountability for their fiscal management outcomes when executing regional monetary activities. The fiscal documentation presented by municipal authorities serves as a mechanism for validating budgetary stewardship. The fundamental purpose of municipal financial disclosure is to furnish stakeholders with valuable insights for informed decision-making concerning territorial resource allocation. It is crucial to exhibit the municipal administration's stewardship in implementing their territorial fiscal plans. Financial metric evaluation stands as one analytical approach for assessing the efficacy of local monetary administration. Financial statements function as accountability instruments utilized by governing bodies to deliver fiscal transparency and essential monetary data to pertinent stakeholders, encompassing investors, financial institutions, and community members.(Lastari et al., 2020).

Financial ratio analysis in financial statements is useful for evaluating the effectiveness of the regional autonomy system(Oktari & Yanti, 2022). Although in the private sector financial statement analysis is common, in the public sector, this practice is still not widespread. Analyzing the ratios of local government financial statements is one technique that can be used to assess how local government financial performance is going. Government financial performance is not only an evaluation, accountability and decision basis. However, more broadly, government financial performance can be used as a basis for sustainable development relating to resource allocation, sustainable infrastructure investment, expenditure control and social justice.

The financial performance of the government plays an important role in driving sustainable development through effective resource management and allocation. When the government is able to optimize revenue and manage expenditures efficiently, more funds are available to support sustainable development programs such as eco-friendly infrastructure, poverty alleviation, and renewable energy development. Transparency and accountability in financial management increase public trust and community participation in sustainable development programs. Financial planning integrated with sustainable development goals enables more targeted and effective program implementation. This includes the allocation of funds for programs that support the achievement of the Sustainable Development Goals (SDGs), such as quality education, public health, and environmental protection. The efficiency of public spending also allows the government to optimize the use of resources in priority sectors for sustainable development. Thus, good government financial performance becomes an important foundation in realizing sustainable development for the welfare of society and environmental sustainability in the future (Pateman et al., 2021) .

Numerous investigations have explored the assessment of territorial fiscal performance. Research undertaken by (Harahap, 2020) evaluated the monetary operations of Central Tapanuli municipality through various indicators: the Autonomy Measurement ratio, interdependence metrics, and efficiency parameters. The findings indicated that Central Tapanuli municipality demonstrated satisfactory operational performance. The Autonomy Measurement ratio serves as a benchmark for evaluating the scope of authority and duties delegated by the national administration to municipal entities for developmental initiatives. The Efficiency Parameter is calculated by contrasting the accumulated Primary Municipal Income against predetermined

revenue targets. Primary Municipal Income serves as an indicator of a territory's self-sufficiency level (Wulandari et al., 2023).

(Rahadi & Digdowiseiso, 2024) Analyzed the financial performance of the Bandar Lampung City government from 2018 to 2022. Financial performance is assessed through the ratio of Fiscal Decentralization, Original Local Government Revenue effectiveness ratio, Fiscal Independence Ratio, Fiscal Dependency Ratio and Capital Expenditure Ratio. From the analysis of the fiscal decentralization ratio from 2018 to 2022, the Bandar Lampung City Government showed sufficient fiscal capacity from 2018 to 2021, with an increase to good in 2022. In the span of 2018 to 2022, the evaluation of the effectiveness ratio Original Local Government Revenue shows that the Bandar Lampung City Government is categorized as ineffective in 2018, 2020, and 2021. In 2019, the category increased to less effective, while the best achievement was recorded in 2022 by being categorized as moderately effective. The fiscal independence ratio and fiscal self-sufficiency ratio received moderately effective results.

(Budiharjo & Mareta, 2023) examined the fiscal operations of the Lawas municipal administration through multiple parameters: the fiscal autonomy index, resource allocation metrics, monetary expansion indicators, and Primary Municipal Income efficiency measurements. The evaluation of Territorial Monetary Performance in the Padang Lawas Municipality reveals that throughout the 2018-2022 budgetary cycle, the overall administrative efficacy of the Padang Lawas Municipality demonstrated suboptimal results.

The Primary Municipal Income efficacy index demonstrates the territorial administration's capability to materialize local revenue streams in alignment with projected forecasts, measured against predetermined objectives established upon the region's authentic economic capacity (Ramadhan & Sam, 2023). Superior efficacy values, approximating or surpassing 100%, signify an exemplary degree of operational success (Alhabsi, 2023).

Activity ratio A ratio that reflects the way local governments allocate their funds between operating and capital expenditures in an optimal way (Aston & Fau, 2023). The Coherence Ratio is intended to evaluate how the Government allocates their funds between operational expenditure and capital expenditure, both of which are closely related to each other (Budiharjo & Mareta, 2023). If a region spends more on Operational Expenditure, it is less likely that the local government will allocate funds to the capital expenditure sector. This may result in a lack of asset enhancement to improve infrastructure and public services.

The cost-benefit parameter illustrates the disparity between operational expenditures invested in generating income and the actual monetary returns obtained. Consequently, meticulous computational analysis is essential in projecting expenditure levels required for revenue materialization, enabling assessment of whether the collection mechanisms demonstrate fiscal optimization or inefficiency (Amal & Wibowo, 2022).

The autonomy metric demonstrates a territory's capacity for self-sustaining administrative operations, infrastructural advancement, and community assistance through utilizing internally generated proceeds, including taxation and municipal charges previously accumulated. Enhanced territorial fiscal indicators signify diminished reliance on external financial support, particularly from national and provincial authorities, and conversely. This measurement instrument functions as a gauge for evaluating municipal administration's aptitude in sustaining its operational endeavors. It exemplifies the magnitude of civic participation in territorial advancement, economic expansion, and societal prosperity (Karina & Wibowo, 2022).

Klaten Regency is a regency in Central Java Province. With the implementation of the regional autonomy system, this district has the legal authority to regulate itself and manage

various aspects determined by the Government and is responsible for the results of its performance in managing regional finances. From this description, researchers are interested in researching and studying the topic of analyzing the financial performance of the Klaten district government for the 2019-2022 fiscal year as a basis for sustainable development.

RESEARCH METHOD

This study is included in the type of quantitative descriptive research. Analysis in quantitative descriptive research aims to describe or explain the data that has been collected without the intention of making general conclusions or generalizations. (Sugiyono, 2018). Descriptive in this study is used to describe how the Regional Original Revenue Effectiveness Ratio, Regional original revenue Efficiency Ratio, Activity or Compatibility Ratio and Independence Ratio. The subject of research is the Government of Klaten Regency, while the object of research is the Realization Report and Regional Revenue and Expenditure Budget (RREB) for the 2019-2022 period. The data used in this study comes from secondary data, namely the Klaten Regency Realization and Budget Report which is accessed through the website of the Directorate General of Fiscal Balance (DGFB).

Data collection in this research was conducted through the documentation method by accessing secondary data in the form of the Realization Report and the Regional Revenue and Expenditure Budget of Klaten Regency for the period 2019-2022, which is available on the official website of the Directorate General of Financial Balance. The data collection process was carried out systematically by downloading the financial report documents, followed by verifying the completeness and accuracy of the data to ensure the validity of the information to be analyzed. The selection of the 2019-2022 period is based on the consideration of the availability of the latest data that can provide an overview of the regional government's financial performance over a sufficient time frame to identify trends and patterns.

The selection of financial ratios in this study is based on a comprehensive consideration of their relevance to sustainable development. The Effectiveness Ratio was chosen because it can measure the ability of local governments to realize planned local revenue, which reflects the fiscal capacity of the region to support development programs. The Efficiency Ratio is used to evaluate the level of efficiency in managing financial resources, which is important for long-term fiscal sustainability. The Activity or Compatibility Ratio is chosen because it can measure the priority of fund allocation between routine spending and development, reflecting the government's commitment to sustainable development. Meanwhile, the Autonomy Ratio illustrates the level of the region's dependence on external funding sources, which is crucial in the context of fiscal sustainability and regional autonomy. The combination of these ratios provides a comprehensive perspective on the financial performance of the region in supporting sustainable development goals. The ratios and measurement indicators used are as follows:

Regional Original Revenue Effectiveness Ratio

The Regional Original Revenue Effectiveness Ratio is obtained by dividing the Realization of Regional Original Revenue by the Target Revenue of Regional Original Revenue.

$$\frac{\text{Realisation of Local Revenue}}{\text{Target For Local Revenue Collection}} \times 100\% \tag{1}$$

The indicator of the success of this ratio, if the results of the ratio calculation show a minimum of 100% or 1, can be concluded to be effective.

Table 1. Assessment of Regional Original Revenue Effectiveness Ratio

Financial Performance (%)	Effectiveness (%)
>100	Highly Effective
90 – 100	Effective
80 – 90	Effective Enough
60 – 80	Less Effective
<60	Ineffective

Source : (Sudaryo et al., 2017)

Regional Original Revenue Efficiency Ratio

The Efficiency Ratio represents the relationship between the expenses incurred to generate revenue and the revenue received. A local government is deemed efficient if this ratio is less than one or below 100%. A lower efficiency ratio indicates a stronger capability of the region.

$$\frac{\text{Realisation of regional expenditure}}{\text{Realisation of local revenue}} \times 100\% \qquad (2)$$

Government performance is considered efficient if the ratio obtained is less than one or below 100%. The smaller the efficiency ratio indicates better regional capacity.

Table 2. Assessment of Regional Original Revenue Efficiency Ratio

Financial Performance (%)	Efficiency (%)
>100	Inefficient
90 – 100	Less efficient
80 – 90	Efficient enough
60 – 80	Efficient
<60	Highly efficient

Source : (Sudaryo et al., 2017)

Activity or Seriousness Ratio

This ratio reflects how the local government allocates its funds optimally between routine expenditure and development expenditure. The Activity or Coherence Ratio is measured through the Operating Expenditure Ratio and the Capital Expenditure Ratio.

Operating Expenditure Ratio

This ratio is obtained through the comparison between total operating expenditure and total regional expenditure revenue budget.

$$\frac{\text{Total operating expenditures}}{\text{Total regional expenditure revenue budget}} \times 100\% \qquad (3)$$

Capital Expenditure Ratio

This ratio is obtained through the comparison between total capital expenditure and total regional expenditure revenue budget.

$$\frac{\text{Total capital expenditure}}{\text{Total regional expenditure revenue budget}} \times 100\% \qquad \textbf{(4)}$$

The success in achieving this ratio is indicated by a higher percentage of funds allocated for routine expenditures, which corresponds to a smaller percentage of investment expenditures (development expenditures) used for community economic infrastructure.

Independence Ratio

Regional independence indicates the level of community participation; a higher Regional Financial Independence Ratio signifies greater community involvement in paying local taxes and fees. The Regional Financial Independence Ratio is calculated using the following formula:

$$\frac{\text{Regional original revenue}}{\text{Fund transfer revenue} + \text{Loans}} \times 100\% \qquad \textbf{(5)}$$

Table 3. Assessment of Activity or Seriousness Ratio

Financial Performance (%)	Efficiency (%)
>75 - 100	High
>50 - 75	Medium
>25 - 50	Low
0 - 25	Very low

Source: (Fera Maulina, 2019)

RESULTS AND DISCUSSION

The study presents the results of the calculations for each ratio, including the Regional Original Revenue Effectiveness Ratio, Regional Original Revenue Efficiency Ratio, Capital Ratio, and Independence Ratio. These calculation results are derived from data processing of the Regency Budget and Realization Report for the 2019-2022 period, obtained from the website of the Directorate General of Fiscal Balance. The analysis results are as follows:

The Results of The Analysis of The Regional Original Revenue Effectiveness Ratio

The Regional Original Revenue Effectiveness Ratio is obtained by dividing the Realization of Regional Original Revenue by the Target Revenue of Regional Original Revenue. The analysis of the effectiveness ratio of local revenue of Klaten Regency from the processing of the processing of the Budget and Realization Report of the Regency Budget for the 2019-2022 Period, the results are shown below:

Table 4. Results of The Analysis of The Effectiveness Ratio of Local Revenue

Years	Realization of Local Revenue (Billion Rupiah)	Target For Local Revenue Collection (Billion Rupiah)	Calculation Effectiveness Regional Original Revenue Ratio
2019	311,65	273,72	(311,65 / 273,72) x 100% = 1,13
2020	329,96	304,55	(329,96 / 304,55) x 100% = 1,08
2021	315,3	249,06	(315,3 / 249,06) x 100% = 1,27
2022	358,05	274,49	(358,05 / 274,49) x 100% = 1,30

Source: Data processed from DGFB Ministry of Finance, RREB Kab. Klaten 2019-2022

The examination of the effectiveness ratio of the Regional Original Revenue (PAD) of Klaten Regency for the years 2019–2022 shows a very successful PAD management

performance. The achievement of an effectiveness ratio consistently above 100% for four consecutive years 113% in 2019, 108% in 2020, 127% in 2021, and 130% in 2022 is evidence of this. The remarkable ability of the local government to achieve PAD exceeding the predetermined targets is reflected in this increasing pattern of effectiveness ratios, despite a slight decline in 2020. This achievement indicates a high level of taxpayer/retribution compliance, an efficient PAD collection system, realistic budget planning, and optimal utilization of regional potential. The Original Regional Revenue (PAD) collected in Klaten Regency is used for various regional needs that can be explained through several main allocation aspects: First, for financing direct/operational expenditures such as employee salaries, goods and services, and regional infrastructure maintenance. Second, PAD is allocated for capital expenditures, including the construction of new infrastructure such as roads, bridges, health facilities, and education. Third, funds are allocated for community empowerment programs and local economic development through various MSME programs and skills training. Fourth, PAD is also used for improving public services, including the modernization of administrative systems and the digitization of government services. It is important to note that the suse of PAD must be in line with the Regional Medium-Term Development Plan and closely monitored through regional financial accountability mechanisms to ensure its effectiveness and transparency for the welfare of the Klaten community. It is recommended that the Klaten Regency Government maintain its outstanding success.

The Results of The Analysis of The Regional Original Revenue Efficiency Ratio

The efficiency ratio is obtained by dividing the realization of regional expenditure by the realization of regional original revenue. The results of the analysis of the Regional Original Revenue Efficiency Ratio for Klaten Regency for the period 2019-2022 are as follows:

Table 5. Results of The Analysis Effectiveness Efficiency Ratio of Local Revenue

Years	Realisation of regional expenditure (Billion Rupiah)	Realisation of Local revenue (Billion Rupiah)	Calculation Efficiency ratio
2019	2.682,36	2.689,35	(2.682,36/2.689,35) x 100%= 0,997
2020	2.545,16	2.578,14	(2.545,16/2.578,14) x 100%= 0,987
2021	2.493,41	2.570,04	(2.493,41/2.570,04) x 100%= 0,970
2022	2.527,62	2.587,69	(2.527,62/2.587,69) x 100%= 0,976

Source: Data processed from DGFB Ministry of Finance, RREB Kab. Klaten 2019-2022

The results of the calculation of the 2019-2022 Klaten Regency Regional Original Revenue Efficiency Ratio analysis, show an average figure of more than 90%, which means less efficient. This indicates that during the 2019-2022 period the costs incurred by the Klaten Regency Government have not been comparable to the realization of the revenue received. High efficiency ratios can be caused by several factors including, lack of good planning, inability to use technology, unclear priorities and goals. If left unchecked it will result in inefficient use of resources, increased costs, lack of competitiveness, financial instability and difficulties in growth and development.

The results of the analysis Activity or Seriousness Ratio

This ratio is measured through the Operating Expenditure Ratio and the Capital Expenditure Ratio. The results of the two ratios are as follows:

Operating Expenditure Ratio

The operational expenditure ratio is obtained by calculating the total operational expenditure divided by the total Regional Revenue and Expenditure Budget (RREB). The Klaten Regency Operating Expenditure Ratio from the processing of the District Budget and Realization Report for the 2019-2022 period is shown below:

Table 6. Results of the analysis Operating Expenditure Ratio

Year	Total Operating Expenditure (Billion Rupiah)	Total RREB (Billion Rupiah)	Calculation Operating Expenditure Ratio
2019	2.478,49	5.536,21	(2.478,49/5.536,21) x 100%= 0,4476
2020	2.608,28	5.812,66	(2.608,28/5.812,66) x 100%= 0,4487
2021	2.483,89	5.421,71	(2.483,89/5.421,71) x 100%= 0,4581
2022	2.463,07	5.401,72	(2.463,07/5.401,72) x 100%= 0,4560

Source: Data processed from DGFB Ministry of Finance, RREB Kab. Klaten 2019-2022

Capital Expenditure Ratio

This ratio is obtained by dividing the total capital expenditure by the total regional budget. The Capital Expenditure Ratio of Klaten Regency from the processing of the Regional Budget and Realization Report for the Period 2019-2022, the results are shown below:

Table 7. Results of Capital Expenditure Ratio Calculation

Year	Total capital expenditure (Billion Rupiah)	Total RREB (Billion Rupiah)	Calculation Capital Expenditure Ratio
2019	289,62	5.536,21	(289,62/5.536,21) x 100%= 0,0523
2020	298,05	5.812,66	(298,05/5.812,66) x 100%= 0,0513
2021	226,97	5.421,71	(226,97/5.421,71) x 100%= 0,0419
2022	237,79	5.401,72	(237,79/5.401,72) x 100%= 0,0440

Source: Data processed from DGFB Ministry of Finance, RREB Kab. Klaten 2019-2022

Comparison of Operating Expenditure Ratio and Capital Expenditure Ratio

From the results of the calculation of the Operational Expenditure Ratio and Capital Expenditure Ratio, compared by paying attention to the percentage composition level of the two ratios.

Table. 8 Comparison Results of Operating Expenditure Ratio and Capital Expenditure Ratio

Year	Operating Expenditure Ratio	Capital Expenditure Ratio
2019	0,4476	0,0523
2020	0,4487	0.0513
2021	0,4581	0.0419
2022	0,4560	0.0440

Source: Data processed

The level of government financial performance can be seen from the regional financial activity ratio over a four-year period. In 2019, the local government's financial allocation was 44.77% for operational expenditure and 5.23% for capital expenditure, indicating low regional physical development in that year. In 2020, the allocation of operational expenditure increased to 44.87% while capital expenditure decreased to 5.13%. In 2021, the percentage of operational expenditure and capital expenditure increased again to 45.81% for operational expenditure and decreased for capital expenditure to 4.19%. Meanwhile, in 2022 the allocation of operational expenditure continued to increase by 45.60% and capital expenditure increased to 4.40%. From

this data, it can be seen that the percentage of operational expenditure is greater than the capital expenditure of local governments over a four-year period. The greater allocation to operational expenditure than capital expenditure shows the tendency of the Klaten Regency government to spend more on routine government activities and less on regional development, due to the high level of government operational activities. As a result, the level of development of regional physical infrastructure and facilities is low. The lack of capital expenditure indicates several things are happening such as limited growth and innovation, dependence on debt, low return on investment and unbalanced fiscal policy.

The results of the analysis Independence Ratio

The results of the Klaten Regency Government's independence ratio for the 2019-2022 period are as follows:

Table. 9 Results of Self-Reliance Ratio Calculation

Year	Regional Original Revenue (Billion Rupiah)	Fund Transfer + Loan Revenue (Billion Rupiah)	Calculation Independence Ratio
2019	273,72	2.094,33	(273,72/2.094,33)x 100%= 0,1307
2020	304,55	2.144,56	(304,55/2.144,56)x 100%= 0,1420
2021	249,06	1.968,84	(249,06/1.968,84)x 100%= 0,1265
2022	274,49	2.051,08	(274,49/2.051,08)x 100%= 0,1338

Source: Data processed from DJPK Ministry of Finance, APBD Kab. Klaten 2019- 2022

According to table, regional financial independence fluctuated over the period 2019 to 2022. The average ratio over the period was 13.32%, indicating a very low level of independence. The financial independence of the Klaten District Government is very low, with a high dependency on Fund Transfers from the central government. The very low independence ratio could be due to low local revenue receipts (local taxes, levies, other sources), high dependence on debt, inefficient spending (waste, misuse of public funds or uncontrolled spending policies) and inappropriate fiscal policies (undirected subsidies, unprofitable investments). This condition is expected to continue in the future if action is not taken to improve local revenue targets and realizations.

The financial ratios of Klaten Regency indicate several serious challenges that affect the region's long-term development strategy. First, the significant imbalance between operational spending (44-45%) and capital expenditure (4-5%) reflects improper priorities in budget allocation. The dominance of high operational spending, coupled with the declining trend in capital expenditure from 5.23% in 2019 to 4.40% in 2022, indicates an excessive focus on routine government activities compared to development investments. This condition has the potential to hinder infrastructure development, the improvement of public facilities, and ultimately affect Klaten's attractiveness to investors as well as the overall regional economic growth.

The paradox between the effectiveness and efficiency of Local Own Revenue (PAD) also raises concerns. Although the effectiveness level of PAD is very high (above 100%), the low efficiency level with management costs reaching more than 90% of the revenue indicates significant resource wastage. This situation results in a decrease in funds available for development and strategic investments. In the long term, this can limit Klaten's capacity to finance important development projects and increase the risk of dependence on debt. Even more concerning, the very low financial independence ratio (an average of 13.32%) indicates a high

dependence on transfer funds from the central government. This condition limits regional autonomy in strategic decision-making and reduces flexibility in responding to local development needs. High fiscal dependence also creates uncertainty in long-term planning and can hinder innovation in regional development policies.

To achieve sustainable development in Klaten District, concrete steps are needed to increase the efficiency of budget utilization, improve financial management, and increase the level of regional financial independence. These include revenue diversification, increased spending efficiency with a focus on spending that provides long-term added value, and a more prudent budget allocation between operational and capital expenditure. In addition, measures such as infrastructure development, human resource development through investment in education and training, improving financial management by strengthening supervision and accountability systems, and strengthening financial independence are also prioritized.

CONCLUSION

The results of the study highlighted several important aspects in the financial performance of the Klaten District Government during the 2019-2022 period. Although the local own-source revenue managed to exceed the set target every year, there are some imbalances in financial management that need attention. First, the activity ratio shows that more expenditure was allocated to operations than to capital investment. This could signify the low physical development of the region during the period, which may be due to the high operational activities of the government. The lack of allocation for capital expenditure may hinder long-term growth and sustainable development. Secondly, the regional financial self-reliance ratio indicates a very high level of dependence on Fund Transfers from the central government. This low self-reliance ratio may be caused by low local revenue receipts, high dependence on debt, and inappropriate fiscal policies. To address this issue, concrete steps need to be taken. First, revenue diversification can be undertaken to reduce the risk of dependence on certain revenue sources. Second, improved financial management is needed, including stricter oversight of public spending. Third, spending efficiency needs to be improved by focusing on expenditures that provide long-term added value. In addition, a more prudent budget allocation between operational and capital expenditures is also needed to ensure infrastructure development and sustainable economic growth. Measures such as infrastructure development, human resource development through investment in education and training, and strengthening supervision and accountability systems should also be prioritized in an effort to improve financial performance and sustainable development in Klaten District. In a broader context, these findings have important implications for regional autonomy policies in Indonesia, indicating the need for a review of the fund transfer policies to regions to better encourage regional creativity and innovation in exploring revenue potential. There is a need to reformulate the central-regional financial balance policy to better consider the fiscal capacity and development needs of the regions, as well as an incentive system that encourages the efficiency of regional financial management.

RECOMMENDATIONS

Based on the research findings regarding the financial performance of the Klaten District Government during the 2019-2022 period, several aspects requiring special attention were identified. Although Local Own-Source Revenue managed to exceed targets annually, there are imbalances in financial management. The activity ratio shows that spending allocations were more focused on operations rather than capital investment, indicating low physical development in the region. Additionally, the regional financial independence ratio shows a very high level of dependence on Transfer Funds from the central government, which may be caused by low regional revenue collection, high debt dependence, and inappropriate fiscal policies.

To address these issues, several recommendations can be implemented. First, revenue diversification needs to be undertaken to reduce dependency risks on specific revenue sources. Second, improved financial management through stricter oversight of public spending. Third, increased spending efficiency with a focus on expenditures that provide long-term added value. Fourth, more prudent budget allocation between operational and capital expenditures to ensure infrastructure development and sustainable economic growth. Lastly, priority should be given to infrastructure development, human resource development through investment in education and training, as well as strengthening supervision and accountability systems to improve financial performance and sustainable development in Klaten District.

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