Humanities Horizon
E-ISSN: 3047-8014
Vol 3 No 3 (2026) pp 149-156
DOI: 10.63373/3047-8014/58

Analysis of regional financial performance using the value for money method at the Kediri City government

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Paper received: 15-07-2026; revised: 18-08-2026; accepted: 23-08-2026; published: 26-08-2026

Keywords
Regional financial performance
Kediri City Government
Financial ratio
Value for money

Abstract
This study analyzes the financial management performance of the Kediri City Government during 2022–2024 using data from the Regional Revenue, Financial, and Asset Management Agency (BPPKAD) of Kediri City. The Value for Money approach covering economy, efficiency, and effectiveness is applied and reinforced with the expenditure composition ratio, regional financial independence ratio, and Locally Generated Revenue (PAD) growth ratio. A quantitative descriptive method was used with secondary data from the Kediri City Government's Budget Realization Reports (LRA) for 2022–2024. Results show the economy level is economical, with ratios of 79.14%, 81.58%, and 82.42%. The efficiency level is inefficient, with ratios of 102.01%, 105.98%, and 103.42%, as expenditure realization consistently exceeded revenue realization. The effectiveness level is effective, with ratios of 105.61%, 101.78%, and 100.38%. Operating expenditure ranged from 86.78% to 89.85% of total expenditure, while capital expenditure ranged from 9.76% to 12.69%. The financial independence ratio is consultative, rising from 28.16% to 34.88%. The PAD growth ratio declined by 27.42% in 2022 before growing 9.98% and 11.01% in the following years. Overall, Kediri City's financial management has fulfilled the principles of economy and effectiveness, although budget efficiency and fiscal independence still require improvement.

1. Introduction

From the perspective of public sector accounting, regional government financial management, as regulated under Law Number 23 of 2014 on Regional Government, no longer focuses solely on legal and regulatory compliance but also on achieving optimal financial performance. Citizens, as the primary stakeholders, are increasingly critical in evaluating local government performance, particularly regarding the management of the regional budget (APBD), so that regional government financial reports should ideally do more than demonstrate an Unqualified Opinion (WTP); they should also show how effectively, efficiently, and economically government programs and activities have been implemented. In practice, the financial performance evaluation of government institutions often still relies on the level of budget realization as the main indicator of success, even though this approach frequently pays insufficient attention to the quality of outcomes and the real benefits obtained from budget utilization.

One approach considered capable of addressing this need is Value for Money (VfM), a public sector performance measurement concept that assesses not only how much of the budget has been absorbed, but also whether public resources have been managed economically, efficiently, and effectively. According to Mardiasmo (2009), VfM serves as the primary basis for measuring public sector organizational performance, in which government performance assessment cannot rely on output alone but must comprehensively account for input, output, and outcome. This multidimensional characteristic makes VfM a relevant approach for evaluating the financial management performance of the Kediri City Government, particularly in addressing the recurring phenomenon of Excess Budget Surplus (SiLPA).

To strengthen the analysis, this study is also supported by the expenditure composition ratio, the regional financial independence ratio, and the Locally-Generated Revenue (PAD) growth ratio as supplementary analytical tools. Based on data from the Kediri City Government's Budget Realization Reports (LRA) for the 2022–2024 fiscal years, sourced from the Regional Revenue, Financial, and Asset Management Agency (BPPKAD) of Kediri City, an interesting pattern emerges: regional revenue realization consistently exceeded its targets for three consecutive years (105.61% in 2022, 101.78% in 2023, and 100.38% in 2024), while regional expenditure realization remained below the set budget (79.14% in 2022, 81.58% in 2023, and 82.42% in 2024). This gap between budgeted and realized expenditure contributes to the formation of SiLPA, which, under Government Regulation Number 12 of 2019 on Regional Financial Management, is used as a source of financing revenue in the following fiscal year. The recurrence of large SiLPA amounts needs to be evaluated to determine whether this condition reflects efficient budget management or instead indicates that a portion of the budget remains underutilized.

Based on the above, this study aims to analyze the financial management performance of the Kediri City regional government through the Value for Money approach, covering the aspects of economy, efficiency, and effectiveness, as well as to analyze the expenditure composition ratio, the regional financial independence ratio, and the PAD growth ratio as supporting analyses. The results of this study are expected to serve as input for the Kediri City Government, particularly BPPKAD, in assessing and improving the quality of regional financial management. Measuring regional financial performance is important because it serves as a reference for evaluating performance achievements as well as a basis for future managerial decision-making (Mahmudi, 2016).

2. Method

This study uses a quantitative method with a descriptive approach. The quantitative descriptive method is used to describe the financial management performance of the Kediri City Government through the Value for Money approach, covering the aspects of economy, efficiency, and effectiveness, which is reinforced by an analysis of the expenditure composition ratio, the regional financial independence ratio, and the PAD growth ratio (Sugiyono, 2022). The object of this research is the Regional Revenue, Financial, and Asset Management Agency (BPPKAD) of Kediri City, which serves as the regional unit responsible for financial management as well as the source of research data.

The data used are secondary data, consisting of the Budget Realization Reports (LRA) and Notes to the Financial Statements (CaLK) of the Kediri City Government for the 2022–2024 fiscal years, obtained from BPPKAD Kota Kediri, covering budget and realization data for regional revenue, Locally-Generated Revenue (PAD), transfer revenue, regional expenditure, operating expenditure, and capital expenditure. Data collection was carried out using the documentation method, supplemented by books, journals, and supporting literature.

The Value for Money analysis was carried out by calculating three main ratios (Mahsun, 2017): the economy level (realized expenditure divided by budgeted expenditure), the efficiency level (realized expenditure divided by realized revenue), and the effectiveness level (realized revenue divided by budgeted revenue), each expressed as a percentage. The analysis is supported by three regional financial ratios: the regional financial independence ratio (PAD divided by central/provincial government assistance and loans) according to Halim (2014); the expenditure composition ratio, namely the ratio of operating expenditure and capital expenditure to total regional expenditure, according to Mahmudi (2019); and the PAD growth ratio, namely the difference between the current year's PAD and the previous year's PAD divided by the previous year's PAD, according to Saifrizal (2022). All data were processed using Microsoft Excel, analyzed on a time-series basis to observe patterns of change across years and on a cross-sectional basis to compare components within the same period, then presented in tables and descriptive narrative.

3. Results and Discussion

The measurement of regional financial management performance is based on the Value for Money approach, covering economy, efficiency, and effectiveness, reinforced by three supporting ratios: regional financial independence, expenditure composition, and PAD growth. All data are sourced from the Kediri City Government's LRA for 2022–2024 through BPPKAD Kota Kediri.

3.1. Economy Level

All economy ratios from 2022 to 2024 were below 100%, thus categorized as economical, with an improving trend from 79.14% to 82.42%, as shown in Table 1. However, an examination by expenditure type shows that this improvement was driven more by stable operating expenditure (86.78%–89.85%) than by improvements in capital expenditure. Capital expenditure absorption instead fluctuated sharply, from 80.87% in 2022 to 60.82% in 2023, before partially recovering to 64.21% in 2024. The low absorption in 2023 was mainly caused by the termination of the construction contract for the Kediri City Square Green Open Space and delays in the construction of the Gambiran Regional Hospital building, which was only about 24% realized (BPPKAD Kota Kediri, 2024). In line with Mahmudi's (2019) view, regional financial performance cannot be assessed solely from the aggregate amount of budget absorbed, but also from the extent to which capital expenditure is used appropriately and in a timely manner.

Table 1. Measurement of Economy Level, 2022–2024

Year	Budgeted Expenditure (Rp)	Realized Expenditure (Rp)	Economy Ratio	Category
2022	1,873,584,434,592.00	1,482,748,596,777.33	79.14%	Economical
2023	1,920,256,048,812.00	1,566,450,723,233.10	81.58%	Economical
2024	1,891,393,326,713.00	1,558,866,792,688.00	82.42%	Economical

3.2. Efficiency Level

All efficiency ratios were above 100% and are therefore categorized as inefficient, as shown in Table 2, because realized regional expenditure consistently exceeded realized regional revenue, leaving the Kediri City regional budget (APBD) in a persistent deficit position. SiLPA, which serves as the source of deficit financing, continued to decline from Rp478.10 billion in 2022 to Rp379.66 billion in 2023 and Rp338.18 billion in 2024. These SiLPA figures are sourced from the Kediri City Government's LRA for the 2022–2024 fiscal years (BPPKAD Kota Kediri, 2024, 2025). The annual deficit was consistently financed through net financing sourced from the previous year's SiLPA, as is common practice in regional budgeting in Indonesia. Therefore, the declining trend in SiLPA does not necessarily indicate a liquidity problem, but rather a gradual reduction in the fiscal buffer available to cover deficits in subsequent years. It should also be noted that the efficiency formula used in this study, namely realized expenditure divided by realized revenue, essentially measures the fiscal balance between expenditure and revenue rather than efficiency in the classical sense of an output-to-input ratio. Accordingly, the “inefficient” category in Table 2 should be interpreted as indicating a budget deficit rather than wasteful spending. The main source of deficit pressure is the large proportion of operating expenditure, which accounted for 86.78%–89.85% of total expenditure and was considerably higher than the relatively moderate annual growth in realized revenue. Referring to Mardiasmo (2014), who defines efficiency as the optimal relationship between input and output, this condition indicates that the scale of operating expenditure has not yet been fully aligned with the region's actual revenue capacity.

Table 2. Measurement of Efficiency Level, 2022–2024

Year	Realized Expenditure (Rp)	Realized Revenue (Rp)	Efficiency Ratio	Category
2022	1,482,748,596,777.33	1,453,556,698,954.24	102.01%	Inefficient
2023	1,566,450,723,233.10	1,478,072,837,267.84	105.98%	Inefficient
2024	1,558,866,792,688.00	1,507,326,107,383.27	103.42%	Inefficient

3.3. Effectiveness Level

All effectiveness ratios were above 100% and are therefore categorized as effective, as shown in Table 3. Although the effectiveness ratio declined from 105.61% in 2022 to 100.38% in 2024, this decrease appears to be more closely related to increasingly ambitious annual revenue targets than to a deterioration in regional revenue performance, since realized revenue in nominal terms continued to increase from Rp1,453.56 billion to Rp1,507.33 billion. In line with Mardiasmo's (2018) view that public sector performance measurement functions both as a tool for evaluating budget implementation and as a basis for future decision-making, the consistently effective performance presented in Table 3 is also supported by BPPKAD Kota Kediri's tax service digitalization strategy, including the E-SPTPD system, Tapping Box, and the SAPA DANA and PIJAR applications (ANTARA News Jawa Timur, 2023). Nevertheless, growth across tax types remained uneven, with Groundwater

Tax and Billboard Tax increasing by 90.25% and 51.62%, respectively, in 2024, while Parking Tax and Rural and Urban Land and Building Tax (PBB-P2) declined.

Table 3. Measurement of Effectiveness Level, 2022–2024

Year	Budgeted Revenue (Rp)	Realized Revenue (Rp)	Effectiveness Ratio	Category
2022	1,376,290,597,717.00	1,453,556,698,954.24	105.61%	Effective
2023	1,452,213,119,780.00	1,478,072,837,267.84	101.78%	Effective
2024	1,501,669,263,626.00	1,507,326,107,383.27	100.38%	Effective

3.4. Regional Financial Independence Ratio

The regional financial independence ratio increased consistently from 28.16% in 2022 to 34.88% in 2024, as shown in Table 4, although it remains within the consultative category (Angin et al., 2023). This indicates that Kediri City has begun to reduce its dependence on transfer funds but still requires support from the central government. The increase in the independence ratio was supported by consistent growth in Regional Original Revenue (PAD), despite declines in several transfer revenue components, particularly the Revenue Sharing Fund, which decreased by 23.9%, and the Regional Incentive Fund, which also declined sharply. In contrast, the General Allocation Fund (DAU), as the largest transfer component, increased from Rp562.85 billion to Rp620.33 billion. As stated by Halim (2014), a higher regional financial independence ratio reflects a lower level of dependence on external funding sources. Therefore, the upward trend presented in Table 4 indicates a gradual strengthening of Kediri City's fiscal autonomy and is also consistent with the achievement of the city's 2020–2024 Regional Medium-Term Development Plan (RPJMD) indicators, which exceeded their established targets.

Table 4. Regional Financial Independence Ratio, 2022–2024

Year	Realized PAD (Rp)	Realized Transfer Revenue (Rp)	Independence Ratio	Relationship Pattern
2022	319,295,604,320.24	1,133,953,936,329.00	28.16%	Consultative
2023	351,169,614,811.84	1,126,903,222,456.00	31.16%	Consultative
2024	389,833,521,688.27	1,117,492,585,695.00	34.88%	Consultative

3.5. Expenditure Composition Ratio

The operating expenditure ratio ranged from 86.78% to 89.85% during 2022–2024, as shown in Table 5, which is consistent with the general proportion of local government operating expenditure of 60%–90% according to Ambya (2023). Meanwhile, the capital expenditure ratio ranged from 9.76% to 12.69%, remaining within the general range of 5%–20% identified by Fathah (2017). Overall, the expenditure structure continued to be dominated by operating expenditure, reflecting the common characteristics of local government budgets in Indonesia (Mahmudi, 2019). In 2024, the allocation of Capital Expenditure on Office Buildings was largely directed toward education buildings, accounting for 45.1% of the total (BPPKAD Kota Kediri, 2025), which is consistent with the mandatory spending provision requiring at least 20% of total regional expenditure to be allocated to education. In contrast, realized Capital Expenditure on Roads declined sharply by 59.8% in 2024 (BPPKAD Kota Kediri, 2025), a development that warrants attention given the importance of road accessibility in supporting community and business activities. This condition should also be viewed alongside the increase in realized private investment in Kediri City from Rp1.34 trillion in 2023 to Rp1.54 trillion in 2024 and the continued dominance of the Manufacturing Industry sector in the regional economic structure (ANTARA News Jawa Timur, 2025). Therefore, the expenditure composition presented in Table 5 suggests that although Kediri City's spending structure remains within generally accepted ranges, greater attention may be needed to balance routine operating expenditure with productive capital investment that can support long-term regional economic development.

Table 5. Expenditure Composition Ratio, 2022–2024

Year	Operating Expenditure Ratio	Capital Expenditure Ratio
2022	88.02%	11.41%
2023	86.78%	12.69%
2024	89.85%	9.76%

3.6. Locally-Generated Revenue (PAD) Growth Ratio

The PAD growth ratio was recorded at -27.42% in 2022 due to the relatively high comparison base of realized PAD in 2021, before returning to positive growth of 9.98% in 2023 and 11.01% in 2024, as shown in Table 6. Based on the criteria of Prasetyo et al. (2023), all three ratios fall within the low category of 0%–25%; however, the trend over the last two years indicates a consistent recovery, with PAD growth in 2024 even exceeding the Kediri City Government's annual target of 10%. This improvement is also consistent with the growth of the Education Services sector at 8.13% and the Accommodation and Food and Beverage Provision sector at 8.15%, both of which exceeded Kediri City's average economic growth. The presence of higher education institutions may contribute to this trend by stimulating local economic activities, including boarding house services, food consumption, transportation, and other student-related expenditures. Therefore, the pattern presented in Table 6 suggests that although PAD growth remains classified as low based on the adopted criteria, its recent positive trajectory indicates an improving capacity of the local economy to support regional own-source revenue, while this interpretation should still be considered within the study limitations.

Table 6. PAD Growth Ratio, 2022–2024

Year	Realized PAD Year t (Rp)	Realized PAD Year t-1 (Rp)	Growth Ratio	Criteria
2022	319,295,604,320.24	439,896,279,120.18	-27.42%	Low
2023	351,169,614,811.84	319,295,604,320.24	9.98%	Low
2024	389,833,521,688.27	351,169,614,811.84	11.01%	Low

3.7. Managerial Aspects

Overall, the aspects of economy, effectiveness, expenditure composition, and regional financial independence of the Kediri City Government for 2022–2024 show good achievement, further supported by ten consecutive years of Unqualified Opinions (WTP) from the Audit Board (BPK Perwakilan Provinsi Jawa Timur, 2024; BPPKAD Kota Kediri, 2025). Meanwhile, the efficiency aspect still requires improvement, as indicated by recurring budget deficits and a continuously shrinking SiLPA. Opportunities for improvement exist through the intensification of high-growth tax types and the expansion of the tax base in line with the growth of the education and services sectors. The main challenges include medium-term fiscal risk arising from the shrinking SiLPA, a sharp decline in road capital expenditure, and uneven growth of regional taxes across types.

3.8. Limitations

This study has two main limitations. First, the data period used covers only three years (2022–2024), so the interpretation of trend direction or performance improvement remains preliminary (small n) and needs to be confirmed with a longer observation period in future research. Second, the relationship between the growth of the higher education and accommodation/culinary services sectors and PAD growth, discussed in the PAD Growth Ratio section, is interpretive in nature, based on the context of the regional economic structure, and has not been statistically tested; it therefore cannot be concluded to represent a causal relationship.

4. Conclusion

In terms of the economy aspect, the management of public funds by the Kediri City Government from 2022 to 2024 was classified as economical (79.14%, 81.58%, 82.42%), although capital expenditure absorption fluctuated sharply due to constraints in the execution of certain project contracts. In terms of the efficiency aspect, financial management was classified as inefficient (102.01%, 105.98%, 103.42%) because realized expenditure consistently exceeded realized revenue, while the regional financial independence ratio actually increased from 28.16% to 34.88%, remaining in the consultative category. In terms of the effectiveness aspect, revenue management was classified as effective (105.61%, 101.78%, 100.38%), supported by an improving PAD growth ratio from -27.42% (2022) to 9.98% (2023) and 11.01% (2024), in line with the growth of the education and accommodation/culinary services sectors in Kediri City. Overall, the regional financial management of the Kediri City Government for the 2022–2024 period has fulfilled the principles of economy and effectiveness at the aggregate level, although the efficiency aspect still requires improvement so that resource use can be further optimized without continuing to erode SiLPA as a fiscal buffer. Strengthening is needed in the management of capital expenditure project contracts, in restoring the allocation for road capital expenditure, and in broadening the regional tax base more evenly across tax types. Future research is recommended to use a longer time period, to statistically test the relationship between the growth of the education/services sector and PAD growth, to add other financial performance indicators, and to expand the scope of the research object to enable comparative analysis across regions.

Data Availability

The data underlying the findings of this study are the Budget Realization Reports (LRA) and Notes to the Financial Statements (CaLK) of the Kediri City Government for the 2022–2024 fiscal years, obtained from BPPKAD Kediri City. Due to the institution's internal policy on data sharing, the raw documents are not publicly deposited; data are available from the corresponding author upon reasonable request and with permission from BPPKAD Kediri City.

Author Contributions

Nadia Arnita Meilina: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Writing – original draft. Novi Nugrahani: Supervision, Validation, Writing – review & editing. Rizky Prasetya: Supervision, Validation, Writing – review & editing. All authors have read and approved the final manuscript.

Conflicts of Interest

The authors declare that there is no conflict of interest regarding the publication of this paper.

Funding Statement

This research was conducted independently by the researcher without any financial support or funding from external institutions or organizations.

Acknowledgments

The authors would like to thank the Regional Revenue, Financial, and Asset Management Agency (BPPKAD) of Kediri City for granting access to the financial data used in this study, and Politeknik Negeri Malang for its academic support.

Supplementary Materials

This study does not include any supplementary materials.

Declaration on AI Use

The authors declare that a generative AI tool was used solely to assist in reorganizing and formatting this manuscript, originally an undergraduate thesis, into journal article structure, under full human oversight. No scientific content, data, analysis, or conclusions were generated by AI; all research content originates from the authors' original work.

Ethical Approval

Ethical approval was not required for this study as it utilized publicly available and fully anonymized data, with no involvement of human participants or identifiable personal information.

Consent to Participate

The requirement for informed consent was waived due to the retrospective nature of the study and the use of fully anonymized data, which posed no risk to participants.

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