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## Cost Effective Institution Practices in Indonesia: Case Study of Badung Regency Government

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### **Abstract:**

*This study tries to explore the practices of cost effective institutions (CEI) in the Badung district government through two approaches, namely the cost-reduction approach and the cost-control approach. This research is a descriptive research with qualitative method. The selection of research loci in Badung Regency was carried out through the Regional Fiscal Capacity Map (KFD) and the Regional Fiscal Independence Index (IKF) Map which showed very developed and good conditions so that they could serve as examples for other local governments in Indonesia. The data collection was carried out by in-depth interviews in two groups, namely the government group and the public group. The results of this study conclude that in principle the Badung Regency Government has implemented a Cost Reduction and Cost Control mechanism with a fairly good implementation strategy and method. However, not all components can be fulfilled according to the ideal concept of Cost Effective Institutions that has been mentioned in Hickel (1993). In general, at least three main stages of CEI implementation practices were found, starting from the planning stage, implementation stage, and monitoring and evaluation stage. There is not much difference between theory and practice, only the model created from the findings of this study reflects the detailed characteristics of budget management in the Badung Regency Government. This study recommends the application of CEI as an approach that is able to encourage the creation of local government functions with a spending control mechanism in order to achieve optimal performance.*

**Keywords:** Cost effective, cost control, cost reduction, local government, Badung regency

### **1. Introduction**

The delegation of authority and financial management from the central government to the regions has opened up space for local governments to improve their economy according to their potential. Through the flexibility of financial management, it is hoped that local governments can allocate budgets for improving public services and community economic activities. Therefore, local governments must also encourage regional financial management not only to be efficient in terms of inputs and processes, but also to be effective in terms of outputs that provide optimal outcomes and impacts for the welfare of the community.

The low fiscal space for financing development, Weberian institutional structure, large overhead costs, and instability of regional fiscal capacity reinforce the problem of the high-cost bureaucracy in Indonesia. Several studies also strengthen the fly paper effect phenomenon which describes the dependence of financing on the central government (Armawaddin et al. (2017); Inayati and Setiawan (2017); Kusuma (2017); Solikin (2016); Amril et al (2015); Oktavia (2014); Saputri and Muid (2014), Taryono (2011). Limited fiscal space and fat institutions cause the implementation of regional development to be not optimal. The existence of inefficiency and inefficiency in financial management encourages the need for the implementation of Cost-Effective Institutions (CEI) for Local Governments in Indonesia which is currently relatively limited to be known and researched.

Moreover, the challenges of fiscal decentralization in the future still require improvement. Among them are the unsatisfactory quality of regional spending where many types of programs and activities make it unfocused (there are around 30,000 programs and 263,000 activities), Expenditures are still dominated by personnel expenditures (an average of 32.4%), Infrastructure spending is still very low (average. average 11.5%); Local tax ratio is still quite low (depressed at 1.2%); The use of financing is still limited; also Central-regional fiscal synergy that is not yet optimal. Not to mention the composition of the APBD allocation to finance mandatory spending, which is still not optimal enough to encourage development and improve regional public services (Ministry of Finance, 2021).

We can make an analogy that managing regional finances is the same as managing household finances, where there are income posts and expenditure posts. The balance between the two must be maintained with the principle of cost effectiveness. Do not let spending exceed receipts, and do not let waste occur in shopping posts that do not provide optimal outcomes. For this reason, to measure the cost effectiveness of the organization (cost effective organization), there

are several approaches that can be taken. One of them is through a cost-reduction approach and a cost-control approach. This approach requires discipline in continuous control, leadership, and must be strengthened continuously to achieve the desired target.

Several previous studies have provided input for the formation of the flow and substance of the research to be carried out in the Regional Government Cost-Effective Institution Study, namely Cost Effectiveness Analysis in Determining Health Policy: Just Concept or Applicative? (Probondari, Ari., 2007); Cost-Effective Restructuring Based on Process Approach (Ivan Todorović, Stefan Komazec, Miha Marič, Jovan Krivokapić, 2013); Institutional thickness and institutional effectiveness: developing regional indices for policy and practice in Australia (Andrew Beer & Laurence Lester, 2015); Structural Determinants of Organizational Effectiveness (Esra Basol and Ozgur Dogerlioglu, 2014); African Bureaucracy and Cost of Governance: Road Map for Resolving the High Cost of Governance in Africa (Chinyeaka Justine Igbokwe-Ibeto, Yemisi Ibiwunmi Ogunlela, Ifeoma Lorreto Nnaji, 2020); Barriers to the implementation of cost-effective in Spanish local authorities (Manuel J. García-Fénix & José M. González-González, 2020).

Badung Regency is one of the areas in Bali Province which is the 5th largest area of 9 regencies/cities on the island of Bali. Its area is 418.52 km<sup>2</sup> or 7.43% of the total land area on the island of Bali. With such an area, Badung Regency is divided into 6 sub-districts, namely: South Kuta, Kuta, North Kuta, Mengwi, Abiansemal, and Evening. As one of the main tourist destinations on the island of Bali, Badung Regency is one of the destinations for migrants in Bali Province. In the context of this study, the challenges faced based on the reference to the 2016-2021 Universal Planning RPJMD document were identified in several regional priorities. The regional priorities are narrowed down into the affairs of compulsory basic services, namely education, health, and public works on spatial planning (infrastructure), as well as matters of choice which become the region's leading potential, namely tourism.

## 2. Methods

In this study, library research is carried out by collecting and studying secondary data sourced from books, journals, research results, proceedings, and other information that supports this research contained in online media. The primary data collection was carried out by extracting data in Badung Regency through an in-depth interview mechanism on the main key informants which were divided into two groups, namely: (1) Government groups including Regional Heads, DPRD, Bappeda, Education Office, Health Office, PUPR Service, Inspectorate, and Organizational Section-Regional Secretariat; and (2) public groups consisting of mass media and NGOs. This research is a descriptive study with a qualitative method that tries to understand the reality that occurs then describes the condition accompanied by analysis and coding formulation in order to determine the next policy recommendations that can be done.

To measure the cost effective organization (institution), there are several approaches that can be taken. Hickel (1993) defines cost-effective organization as a condition in which the organization carries out various functions with cost-control mechanisms to achieve a competitive performance. The two approaches used are the cost-reduction approach and the cost-control approach, by mobilizing all components of the organization, but without the commitment and active contribution of top policy makers, the cost-effective organization condition will not be achieved.

Cutting costs in organizations is usually done in order to review which activities do not show good performance, coupled with conditions and situations that allow to reduce the burden that causes costs, the cost-reduction approach can be chosen. However, to do so requires a thorough analysis of the functions in the organization that are carried out by leaders and subordinates together. This is done because the impact will be on the functions that are eliminated/reduced by the budget.

The cost-control approach uses 'strategic budgeting', which is a budgeting system that binds the money spent by the organization with the goals and objectives as set out in its strategic plan. Then to determine the goals and objectives that should be incorporated into the strategic plan, the organization must answer questions such as: What factors (both positive and negative) set us apart from other organizations in the market? Where do we develop the most? How can we build strength? Where do we spend the most money, and how can those costs be minimized? These questions can lead to a strategic plan that builds on strengths while correcting weaknesses. This makes the organization more profitable and allows it to be run cost-effectively.

## 3. Results and Discussion

In general, regional development in Badung Regency is formulated and contained in the Badung Regency RPJPD document for 2005-2025 and also the Badung Regency Planned RPJMD document for 2016-2021, which is aligned with the direction of the Bali Province regional development policy as well as the national development policy direction. To finance the implementation of the affairs under the authority of the Badung Regency Government, significant revenue is needed to encourage the optimization of the implementation of public service tasks and regional development. From the available data, prior to the Covid-19 pandemic (2017-2019) the Badung Regency Government's revenue grew quite significantly above IDR 5 Trillion. However, since 2020, the Badung Regency Government's Revenue has decreased with an average revenue of only IDR 3.8 Trillion (2020-2021). This certainly affects the level of Badung Regency Government spending which has an impact on the efficiency of program expenditures and activities for implementing regional government affairs.

The Badung Regency Government's revenue is supported by Regional Original Revenue (PAD) which reaches 83%-84%, except in 2020 PAD has decreased to 54%. In terms of spending, in 2017 and 2018 the Badung Regency Government experienced a regional expenditure deficit of around IDR 474 billion and IDR 379 billion. However, from 2019 to 2020 it had a surplus of around IDR 59 billion and IDR 28 billion. Quantitative efforts to spend the available budget on the one hand are quite important but of course need to be accompanied by optimal impacts or benefits on the welfare of

the community and acceleration of regional development and especially in achieving the vision and mission of regional heads.

If examined in terms of the expenditure component of the Badung Regency Government, the indirect component of expenditure relatively dominates even though the percentage level is quite small. On average, indirect spending reached 54%, while direct spending reached 46% on average. This shows that expenditures that are not directly related to the implementation of programs and activities are still quite large. Furthermore, if broken down into the components of the Badung Regency Government's expenditure, there are 3 components of a fairly large expenditure in the Badung Regency Government's APBD, namely personnel expenditure, goods and services expenditure, and capital expenditure.

The amount of personnel expenditure, if accumulated from Direct Expenditure and Indirect Expenditure, reaches an average of 26% of total expenditure, then the average expenditure on goods and services reaches 28% of total expenditure, while capital expenditure only reaches an average of 16% of total expenditure. total spending. This figure relatively illustrates that the Badung Regency Government spends quite a lot of spending on the purchase of consumable goods and services as well as expenditures for employees compared to expenditures that add to the assets of the Badung Regency Government.

The Regional Medium-Term Development Plan (RPJMD) of Badung Regency 2016-2021 includes 9 missions which are translated into 13 goals, 20 strategic targets and 21 key performance indicators (KPI). The 2018 budget allocation for achieving strategic targets is IDR 1,315,742,365,110.22, - with a budget realization of IDR 926,513,408,404.11. so that the percentage of absorption reached 70.42%. Furthermore, the 2019 budget allocation for achieving strategic targets is IDR 822,283,070,004,28, - with a budget realization of IDR 750,904,939,175,12, - so the percentage of absorption reached 91.32%. The 2020 budget allocation for achieving strategic targets is IDR 1.356.993.556.381,- with a budget realization of IDR 1,223,623,428,734,- so the percentage of absorption reaches 90.17% (LKJIP Badung Regency Government, 2018-2020).

### 3.1. Cost Effective Institution Practices

The practice of implementing Cost Effective Institutions (CEI) in Badung Regency begins when the program/activity plan preparation takes place in the Musrenbang mechanism, both at the District and Regency level Musrenbang. In this activity, the local government provides a maximum limit/ceiling that can be proposed in the activity. So that at this stage the community/stakeholders involved are able to calculate the limit on the number of activities along with the budget plan that will be submitted, because later the TAPD team will still consider whether to pass or not. The next process is trimming the proposed activities. So that in this initial phase, the practice of Cost Control and Cost Reduction has been running hand in hand.

The next phase is the preparation of programs and activities as a concrete step in implementing regional strategic plans. During assistance in calculating the ceiling for programs and activities, the control and pruning process was again carried out by the TAPD team, particularly by Bappeda and BPKAD. Regional apparatus as the leading sector of programs and activities that have entered the mentoring stage will be very careful in preparing their annual work plans so that the achievements at the end of the fiscal year can be achieved optimally.

In practice in Badung Regency, budget cuts also occur when the process of implementing programs and activities is running. This happens in the context of adjustments towards more strategic or priority achievements. During the COVID-19 pandemic, the adjustment of activity programs through budget refocusing became apparent, as a result of the urgent need for handling related to the COVID-19 outbreak.

In the implementation of CEI in organizations, especially in Badung Regency, the role of leaders both at the regional level and regional apparatus becomes very important. The CEI mechanism requires experience and patience because it is carried out continuously. This ability is honed based on the experience of meeting and interacting with the community and the policies taken to use the budget will eventually reach the community in the form of services and improvements to various public facilities with achievements that are easy to measure and monitor together.

However, what has been done by the Badung Regency Government does not necessarily follow the CEI concept intentionally. At least in carrying out the CEI mechanism, there are two types of policy steps taken, namely 1) conducting cost reduction selectively and 2) implementing spending control or in this case called cost control carried out by each regional apparatus in layers, with reference to policy directions from the regional leader and the Regional Government Budget Team (TAPD).

Efforts to cut spending have been carried out not only due to the influence of the current Covid-19 pandemic, but also in previous years. Efforts to cut spending have also been carried out through the use of IT through digitizing services which can certainly shorten time and cost efficiency. Some of the cost reduction measures implemented by the Badung Regency Government include:

- In the Education sector: Selection of providers using LKPP e-purchasing; Construction packages under 200 million using supervisors/directors from competent service staff; Construction packages that use Unexpected Assistance funds use consultants from service staff who have the ability
- In the Health Sector: Elimination of Gastrointestinal Disease Prevention and Control programs; Post Immunization Evaluation program; and the Procurement of the Corpse Car Program
- In the infrastructure sector: In terms of payment of retribution for construction laboratories and heavy equipment rental at the PUPR Service, the process is online, both for ordering/applications and in the payment process; Budget control / DPA is carried out carefully so that efficiency is obtained and can be reused in the next fiscal year; A budget refocusing has been carried out by reducing/eliminating a budget whose level of urgency is not so

prioritized to be allocated for handling COVID-19; Postponing activities that are not urgent / if they can be handled after the COVID-19 pandemic

- In the tourism sector (leading): Reduction of activities and participation in overseas tourism promotion from 8 events to 5 events; Efficiency in spending on planning consulting services for the yeh mandala Taman Mumbul arrangement at the Sangeh Tourism Village; Reduction of activities and participation in tourism promotion outside the region and abroad from 11 events to 2 events; Maximizing tourism promotion activities through digital media and maximizing the function of the tourism office website as a digital promotional media; Reduction of publications through print media from 2 print media to 1 print media, namely the publication of tourism activities in Badung Regency through English-language print media; and Utilization of Special Allocation Funds from the center both physical and non-physical for the arrangement and development of tourism destinations. To support the improvement of the quality of tourism destinations.

Various efforts have been made by the Badung Regency Government to implement the Performance Accountability System (SAKIP) into a performance culture through improving the quality of performance planning, measurement, reporting and performance evaluation as well as gradually changing the mindset of ASN to be more performance-oriented through efforts to align programs and activities to match the targets. RPJMD. Through the implementation of the Performance Tree and program refocusing, it is able to prevent budget inefficiencies. With the efficiency of programs/activities, it will have an impact on budget efficiency and effectiveness.

No	Year	Program Savings Amount	Activity Reduction Amount	Budget Efficiency (IDR)
1	2017	420	2.930	133 M
2	2018	418	2.828	>776 M
3	2019	411	2.389	1,6 T
4	2020	394	1.935	1,63 T

*Table 1: Budget Efficiency in the Implementation of Badung Regency Government Programs and Activities in 2017-2020*  
Source: LKJIP Badung Regency Government

The results of budget efficiency in 2020 are IDR 1,633,375,252,323.32, in 2019 it is 1.6 trillion, in 2018 it is IDR 776,032,414,731.96, - while in 2017 it was IDR 133.232.647.500,-. While the effectiveness of programs and activities in 2017 was 420 programs and 2,930 activities to 394 programs and 1,935 activities in 2020, resulting in a reduction of 26 programs and 995 activities. The results of budget efficiency are allocated for the fulfillment of priority programs and activities for the National Development Planned Universe (PPNSB) as well as for improving the welfare of the State Civil Apparatus (ASN) such as the Additional Income Allowance (TPP)..

### 3.2. Cost Reduction (CR) pattern in Badung Regency

In general, the practice of saving Badung Regency government spending is more precisely directed to use its budget carefully and precisely in accordance with regional needs. The regional needs are stated in the RPJMD which has been determined in accordance with the development themes to be achieved every year. On this basis, regional apparatuses carry out the preparation of relevant programs and activities and have an impact on meeting the needs of the region.

In practice, every year the leadership of the regional apparatus receives directions from the regional head to always be guided by the achievement of the vision and mission which is then poured into the regional development priorities that have been determined. In the context of accelerating the priority of regional development, the focus of Badung Regency Government spending is directed there. Based on this directive, the leadership of regional apparatuses consolidates in the management of budget planning for the implementation of the affairs under their authority. The regional apparatus then conducts a sweep of the programs and activities that will be carried out by taking into account the implications for achieving the vision and mission as well as the regional development priorities of Badung Regency in the current year..

There are at least two general steps taken during the sweeping of these activities. The first is to completely eliminate activities that are considered less priority to be carried out in the current year. The parameter is of course by looking at the outputs and outcomes of these activities, whether they lead to development priorities at this time or in the coming year. The second step is to reduce spending on activities that are considered less effective. In activities that do not interfere with achieving the target output and outcome in an activity, it can be eliminated.

### 3.3. Cost Control (CC) Pattern in Badung Regency

The control process over regional expenditure (cost control) carried out by the Badung Regency Government is carried out continuously starting from the planning stage, implementation stage, to monitoring and evaluation. This expenditure control mechanism is carried out simultaneously starting from regional leaders, regional apparatus leaders, regional supervisory apparatus, to program and activity implementing elements.

At the planning stage, cost control is carried out by bringing up development themes every year where the development theme will be the main basis for development every year. At the planning stage, the indicative amount of regional revenue and the distribution of the initial portion of the maximum expenditure for each sub-district have also

been mapped. With this process, each sub-district has been allocated the maximum amount of expenditure that can be divided according to the needs of programs and activities at the sub-district musrenbang. To optimize spending on every government affair, in this phase the OPD along with the public as well as legislative elements are present at the sub-district musrenbang to discuss proposed programs and activities in accordance with the maximum amount of expenditure available for each sub-district.

At the implementation stage, each regional apparatus seeks to carry out programs and activities effectively and efficiently. Several austerity efforts have been made through sweeping programs and activities that do not have a direct impact on the achievement of regional development priorities. This saving effort certainly does not cause the tasks and functions of the regional apparatus not to be carried out, but instead accelerates the achievement of the organization's overall performance.

At the monitoring and evaluation stage, both regional leaders, regional apparatus leaders, and elements of the inspectorate make efforts to monitor the implementation of programs and activities as well as monitor the alignment of targets and realizations set. In addition, an evaluation of the achievement of key performance indicators as well as the achievements of other standards, such as minimum service standards, and others is also carried out.

### *3.4. Influencing Factors in the Implementation of CEI in Badung Regency*

In administering local government and also managing local budgets, the Badung Regency Government holds the principle of accountability and participation of all relevant parties and the community. So that in naming the regional development planning document, the term universal planning is used. So that from upstream to downstream always use 4 approaches, namely: 1) technocratic, relying on bureaucratic implementers as the driving engine; 2) participatory, active involvement of various regional components; 3) political, realizing the importance of support from local government partners, namely the legislature, and; 4) the flow pattern of top-down and bottom-up coordination and communication. So that the first influential factor, including the cycle in the occurrence of CEI in Badung Regency, is the spirit of collaboration.

The second factor that gives color to the implementation of CEI is adhering to the guidelines for national development policies and the principles of the Tri Sakti teachings (self-reliant in the economic field, sovereign in politics, and having a personality in the field of culture) and the philosophy of Balinese local wisdom, namely Tri Hita Karana (keeping relationship with God, nature/environment, and fellow human beings) and Paras Paros Sarpanaya Sagilik – Saguluk Sanglunglung Sabayantaka (property, harmony, harmony). This means that the second factor is about obeying national rules and policies and adhering to noble teachings and local culture.

Furthermore, other important factors that affect CEI are the actors implementing development, starting from the Regent as the regional head, and all the ranks behind him. The Regent conveys the foresight captured in the vision and mission, then translated by ASN as a regional bureaucratic machine into programs and activities carried out in achieving regional development goals. CEI can be realized in practice because all these actors try to uphold the principles of good governance (professionalism, accountability, transparency, excellent service, democracy and participation, efficiency and effectiveness, and rule of law).

Badung Regency, which is part of the island of Bali, as we all know, is an area that upholds the teachings of Hinduism and the noble customs of Balinese culture. So that the people who live there also become an inseparable part in the regional development process by breathing very strong local teachings and culture. The existence of mutual honing, compassion, care between the local government and the community and vice versa is the driving factor for the occurrence of CEI in Badung Regency.

## **4. Conclusion**

From the findings and discussions that have been carried out, this study has reached several conclusions. First, in principle, the Badung district government has implemented a Cost Reduction and Cost Control mechanism with various implementation methods and strategies, but not all of them have fulfilled the conditions for the ideal concept of Cost Effective Institutions that have been mentioned in theory. These differences occur considering the differences in the internal and external environmental conditions of the organization as well as the work culture built in Badung Regency.

Second, the factors that influence the condition of Cost Effective Institutions in Badung Regency. In general, the influencing factors are identified, including: leadership and strong commitment of the Regional Head; ASN professionalism; the ease of national and regional regulations; communication and openness; collaborative governance; IT utilization; the existence of a reward & punishment system or also an incentive and dis-incentive system. For special factors that are owned, related to the influence of religious teachings, existing culture, and local customs.

Cost Effective Institutions as an approach that is able to encourage the implementation of local government functions with a spending control mechanism in order to achieve optimal performance is not widely known. Although in practice, the regions have implemented the substance of the CEI, namely through Cost Reduction (CR) and also Cost Control (CC), but the real intention is not to control spending. So it is important for local governments to realize that the concept of spending control can continue to be developed from time to time. If implemented properly, it will make the local government more able to control and then finance program activities oriented to meeting the needs of the public interest that have a wider and significant impact on a sustainable basis.

The CEI approach can be used and applied, especially for the CR approach carried out by the Regional Planning and Development Agency (Bappeda). If it is judged that the budget plan is not in accordance with the principles in the CR, then Bappeda must have the courage to cut regional spending, of course with a further strengthening of the CR mechanism. On the other hand, the Inspectorate can also adopt a CC approach, where in addition to SPIP as the basis for

supervision in the regions, additional CC is needed as a cyclical (continuous) control mechanism, especially the use of regional budgets so that their allocation is more effective and efficient.

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