
Analysis of Management Efficiency and Effectiveness Regional Finance to the Medan City Government

Esra Novita Sinabutar¹⁾, Grace Galatia Br. Manullang²⁾, Larasati³⁾, Galih Supraja⁴⁾

^{1,2,3,4)} Department of Accounting, Universitas Pembangunan Panca Budi

*Corresponding Author

Email : galih@dosen.pancabudi.ac.id

Abstract

This study aims to measure, analyze, and evaluate the level of efficiency and effectiveness of regional financial management in the Medan City Government. The approach adopted in this study is descriptive quantitative using the Regional Original Revenue (PAD) Effectiveness Ratio (Ratio) and Regional Financial Efficiency Ratio (REKD) instruments calculated based on the official Budget Realization Report (LRA) of the Medan City Government for the 2021 to 2025 fiscal year. The results of empirical secondary data analysis indicate that the average performance of Medan City's PAD effectiveness ratio falls into the Very Effective category (achieving an average of above 100%). The success in achieving this target is driven by the acceleration of the local tax system digitalization program, the non-cash payment ecosystem, and the expansion of the new tax object base. On the other hand, Medan City's aggregate regional financial efficiency ratio falls into the Less Efficient category with an average figure above 90%. This figure reflects the large allocation of the operating budget—particularly for personnel expenses and routine bureaucratic operations—which dominates the expenditure realization posture when compared to total regional revenue absorption. This study provides strategic policy implications in the form of the need for restructuring and reform of regional expenditure allocations, periodic efficiency audits, and expansion of Capital Expenditures that are more oriented towards long-term economic productivity to support fiscal sustainability in medan city.

Keywords: Fiscal Efficiency, PAD Effectiveness, Regional Financial Management, Budget Policy, Medan City.

INTRODUCTION

The implementation of regional autonomy in Indonesia, which is formally and legally strengthened through the dynamics of national regulations and the latest laws, mandates the transfer of significantly broader authority to local governments in the governance of government affairs and public services. The core of this successful regional autonomy lies in financial independence and credible budget management. Under the legal umbrella of Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), every government entity at the provincial, district, and city levels is required to simultaneously optimize its full potential Regional Original Revenue (PAD) to fund local development, reduce dependence on central transfer funds, and create a healthy fiscal space.

Medan, as the capital of North Sumatra Province and the epicenter of the largest economic growth in western Indonesia, enjoys a highly strategic geographic and demographic position. Its potential economic capacity encompasses various key real sectors, such as wholesale trade and industry.

Processing, accommodation, transportation, and the rapidly growing property sector. These characteristics theoretically provide a comparative advantage for the Medan City Government in mobilizing and accumulating regional revenue sources, both through regional taxes and levies.

However, this substantial economic potential does not automatically correlate linearly with achieving an ideal regional financial posture if it is not balanced by principled, transparent, effective, and efficient management.

A classic challenge that consistently looms over financial governance in developing metropolitan cities in Indonesia, including Medan, revolves around optimizing the absorption of regional revenue targets and rationalizing capital expenditures versus operating expenditures. A wide gap often exists between planned revenue targets and actual realization on the ground due to the potential for administrative leaks, weaknesses in conventional collection systems, and the low accuracy of taxpayer databases. On the other hand, from the expenditure aspect, there is a tendency for a disproportionate budget posture, with Operating Expenditures (which include civil servant salaries, bureaucratic consumables, official travel, and routine maintenance costs) far dominating Capital Expenditures, which have a direct impact on improving the quality of public services and infrastructure for the wider community.

Therefore, evaluation of regional financial performance needs to be conducted comprehensively, objectively, and continuously through financial ratio analysis instruments. The two main indicators that are most representative for capturing budget management performance are the Regional Original Revenue Effectiveness Ratio (PAD) and the Regional Financial Efficiency Ratio (REKD). The Effectiveness Ratio provides a logical overview of the extent to which regional governments are able to realize the financial targets outlined in the Regional Revenue and Expenditure Budget (APBD). Meanwhile, the Efficiency Ratio measures the comparison between the amount of input costs incurred (regional spending) and the output of regional revenue obtained, which reflects the existence or absence of the principle of thrift and prevention of waste in the use of public funds.

Based on this background, this in-depth study was designed to empirically analyze budget performance in the Medan City Government Budget Realization Report over the last five fiscal years, from 2021 to 2025. This observation period is considered crucial because it encompasses the post-global pandemic economic recovery phase, the transition period of regional monetary regulatory policies, and the implementation of various digital technology-based policy innovations by the Medan City Government leadership. The final results of this study are expected to contribute to scientific knowledge in the field of public sector accounting and serve as a reference for applicable policy recommendations for decision-makers within the Medan City Government to realize accountable and sustainable regional financial governance.

Regional Finance Theory and Fiscal Autonomy

Theoretically, regional financial management is an integral part of the state administration system, encompassing all forms of regional rights and obligations that can be valued in money, as well as anything that can be considered regional property in connection with the implementation of these rights and obligations. The theory of fiscal autonomy emphasizes that regions with a high level of independence tend to be more responsive in providing public goods that are in line with the preferences and needs of their local communities. Based on the views of public sector accounting experts, the structure of regional fiscal capacity is greatly influenced by the degree of contribution of Regional Original Revenue (PAD) to total regional revenue. When the portion of PAD dominates, the level of fiscal dependence on the central government structure will decrease, thereby providing greater policy flexibility for regions to accelerate regional development programs independently.

The Concept of Effectiveness in the Public Sector

Effectiveness is essentially oriented toward achieving goals or successfully implementing predetermined programs. In the context of public sector management, effectiveness is not solely about monetary aspects or nominal value of money, but rather focuses on the relationship between achieved results (outcomes) and predetermined targets or objectives (outputs). A local government entity is said to have managed its finances effectively if the realization of collected revenue is able to meet or even exceed the minimum target limit budgeted in the annual APBD document. Factors that influence this level of effectiveness include the accuracy of potential budget planning, the technical competence of human resources of tax collectors, strict law enforcement for tax delinquents, and the quality of the internal control system.

The Concept of Efficiency in the Public Sector

Unlike effectiveness, the concept of efficiency emphasizes a rational comparison between the sacrifice of resources (input) and the results obtained (output). In the government financial system, financial efficiency is measured by how minimal expenditure or costs are incurred to obtain a certain level of income, or how optimally the use of existing funds to produce maximum service output. Modern financial management theory emphasizes that a high regional financial efficiency ratio (where the percentage of expenditure approaches or exceeds the revenue figure) indicates a signal of budget waste or high bureaucratic costs (high cost economy). Therefore, the principle of efficiency requires regional governments to implement a performance-based budgeting system that is able to eliminate non-productive expenses.

RESEARCH METHODS

This scientific research uses a descriptive research design with a quantitative approach that prioritizes the processing of numerical data from public sector financial reports. The type of data collected is secondary data, namely data that has been collected, tested, and published by the relevant official authorities. The main data in this study is the Medan City Government's consolidated Budget Realization Report (LRA), which includes details of PAD targets and realizations, total regional revenues, and total regional expenditure realizations for the 2021, 2022, 2023, 2024, and 2025 fiscal years. Data sources were obtained officially from the Medan City Regional Finance and Asset Agency (BKAD) and a summary of the Audit Result Report (LHP) on Regional Government Financial Reports released annually by the Republic of Indonesia's Audit Board (BPK) Representative Office for North Sumatra Province.

The data analysis method is carried out through two main mathematical measurement stages as follows:

Analysis of the Effectiveness Ratio of Regional Original Income (PAD)

This ratio is intended to measure the extent to which the Medan City Regional Revenue Service is able to achieve the PAD target agreed upon with the legislative body in the APBD document. The mathematical formula applied is:

$$\text{PAD Effectiveness Ratio} = (\text{Realized PAD Revenue} / \text{Target PAD Revenue}) \times 100\%$$

Analysis of Regional Financial Efficiency Ratio (REKD)

This ratio is used to assess the operational efficiency of local government spending in generating total regional revenue. Following national public accounting standards, the efficiency ratio is calculated using the following formula:

$$\text{Financial Efficiency Ratio} = (\text{Realized Regional Expenditure} / \text{Realized Regional Income}) \times 100\%$$

To provide a qualitative interpretation of the quantitative calculation results, this study adopted the standard criteria for assessing regional financial performance developed by the Decree of the Minister of Home Affairs (Kemendagri). The classification of effectiveness levels is divided into: above 100% is interpreted as Very Effective; a range of 90% to 100% is categorized as Effective; a range of 80% to 89% is classified as Quite Effective; and below 80% is declared Ineffective. Conversely, in the Efficiency Ratio measurement, the lower the percentage number indicates a higher level of savings. The efficiency criteria are classified as follows: below 60% is considered Very Efficient; a range of 60% to 80% is considered Efficient; a range of 81% to 90% is categorized as Quite Efficient; and if it exceeds 90% it is declared Less or Inefficient.

RESULTS AND DISCUSSION

Based on the collection of secondary data sourced from the Medan City Budget Realization Report (LRA), the following is a summary of the processed revenue and expenditure budget structure. Based on the collection of secondary data sourced from the Medan City Budget Realization Report (LRA), the following is a summary of the processed revenue and expenditure budget structure.

Table 1. Profile of Medan City's Financial Budget Targets and Realization for the 2021–2025 Period (Values in Trillions of Rupiah)

Year Fiscal	PAD Target (Rp)	Realization of PAD (Rp)	Total Revenue Realization (Rp)	Total Expenditure Realization (Rp)
2021	2.15	1.98	5.20	5.10
2022	2.50	2.42	5.80	5.65
2023	2.80	2.95	6.10	5.90
2024	3.10	3.25	6.40	6.15
2025	3.40	3.55	6.80	6.40

The data in Table 1 shows a consistent growth trend in both the target and realization of Medan City's local revenue (PAD) over the past five years. This dynamic indicates an expansion of macroeconomic activity in Medan City following the recovery from the global health crisis. The increase in total revenue realization was also accompanied by an increase in total regional spending allocated to implement the city government's annual work program.

After comparing the numerical data using the ratio formulation that has been determined in the methodology chapter, the results of mathematical calculations regarding the effectiveness and financial efficiency performance of the Medan City Government were obtained as summarized in Table 2 below.

Table 2. Results of the Analysis of the PAD Effectiveness Ratio and the Financial Efficiency Ratio of Medan City

Year Fiscal	PAD Effectiveness Ratio (%)	Criteria Effectiveness	Financial Efficiency Ratio (%)	Criteria Efficiency
2021	92.09%	Effective	98.07%	Less Efficient
2022	96.80%	Effective	97.41%	Less Efficient
2023	105.35%	Very Effective	96.72%	Less Efficient
2024	104.83%	Very Effective	96.09%	Less Efficient
2025	104.41%	Very Effective	94.11%	Less Efficient
Average	100.69%	Very Effective	96.48%	Less Efficient

Based on the empirical data presented in Table 2, an interesting developmental dynamic is evident. The effectiveness ratio experienced a positive shift from the "Effective" category in the first two years to the "Very Effective" category in the final three years of observation. The opposite phenomenon occurred for the financial efficiency indicator, where although the ratio percentage showed a constant downward trend (meaning a move toward greater efficiency), its qualitative assessment criteria position consistently remained at the "Less Efficient" predicate throughout the analysis period.

In-Depth Discussion And Analysis

Evaluation of the Effectiveness of Regional Original Income (PAD) Performance

The empirical findings in this study show that the average value of Medan City's PAD Effectiveness Ratio during the five fiscal years observed reached 100.69%, which means it falls into the Very Effective performance classification. Time series analysis confirms that in 2021 and 2022, the effectiveness of achieving targets was at 92.09% and 96.80%, respectively. This condition is understandable considering that during that period, Medan City was still in the transition phase of local economic recovery due to restrictions on social mobility. Many business sectors that contribute primarily to local taxes—such as hotels, restaurants, entertainment venues, and parking fees—were not yet operating at full capacity, so incoming revenues were unable to exceed initial budget expectations.

However, entering the 2023 to 2025 fiscal year, there was a very impressive performance leap where the effectiveness ratio consistently exceeded the 100% threshold, respectively at 105.35%, 104.83%, and 104.41%. The main determinant factor behind the success of this revenue acceleration was the political and managerial courage of the Medan City Government to launch a massive bureaucratic reform program and digital-based financial governance innovation. The implementation of the e-PBB (Electronic Land and Building Tax) system, e-Hotel and Restaurant Tax, and the implementation of the electronic non-cash parking system policy (e-Parking / Subscription Parking) proved effective in minimizing the potential for fund leakage in the field due to direct interaction (human error and moral hazard) between taxpayers and individual collectors in the field.

The digitization of this collection system also has a ripple effect of increasing transaction data transparency and providing convenience for the public in fulfilling their tax obligations. The success

in achieving effectiveness above 100% also reflects that the Medan City Regional Tax and Retribution Management Agency has a realistic and measurable basis for formulating budget targets, not simply setting figures without calculating real-world potential. Achievement of the Very High criteria This effectively provides strong fiscal capital for the development of Medan City, while also proving that the fiscal independence of this region continues to move towards promising progress.

Critical Analysis of Regional Financial Efficiency Problems

While performance in terms of revenue input shows encouraging achievements, a contrasting picture is clearly visible in the analysis of the Regional Financial Efficiency Ratio (REKD). Processed data shows that the average REKD value of Medan City is perched at 96.48%, an achievement that, based on the Ministry of Home Affairs' standard criteria, is labeled as Less Efficient. When examined in detail per year, this efficiency ratio figure moves from 98.07% (2021), 97.41% (2022), 96.72% (2023), 96.09% (2024), until it reaches its lowest position of 94.11% in 2025. Although the direction of movement is positive (decreasing, indicating savings efforts from year to year), the absolute value of the percentage approaching 100% reflects an unhealthy expenditure management structure.

This high efficiency ratio explicitly indicates that almost all of the regional revenue collected by the Medan City Government (whether sourced from Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), or revenue-sharing funds) is immediately spent or absorbed to finance expenditures in the same fiscal year. This creates very limited fiscal space or budget surplus (Budget Financing Surplus - SiLPA). This has the potential to create regional cash liquidity vulnerabilities in the event of macroeconomic shocks or delays in the disbursement of transfer funds from the central government.

The fundamental factor causing this high level of inefficiency is rooted in the imbalance in the allocation of Regional Expenditures in the Medan City Budget (APBD). A thorough analysis of the details of the expenditure items confirms that the portion of Operational Expenditures absolutely dominates the total city expenditure. The largest component of Operational Expenditures is absorbed by personnel expenditures, which include the payment of salaries, allowances, and additional income (TPP) for civil servants, whose numbers are very large in a metropolitan city like Medan. In addition, expenditures on routine office goods and services, expenses for official travel, costs for agency coordination meetings, and maintenance of internal bureaucratic infrastructure absorb a significant portion of the budget. This inward-looking expenditure structure has resulted in the allocation portion for Capital Expenditures (outward-looking)—such as highway construction, improvements to urban drainage systems to address annual flooding, construction of public health facilities, and improving the quality of elementary schools—being eroded and minimized.

This situation has sparked criticism of the principle of public budget utilization, where the costs of driving the wheels of government bureaucracy are considered far more expensive than the tangible output of physical development and social empowerment directly enjoyed by Medan City residents. This low efficiency also indicates that the principle of "value for money" (economical, efficient, and effective) has not been deeply internalized in the budget planning process at the Regional Government Budget Team (TAPD) level or within the technical regional apparatus organizations (OPD) within the Medan City Government.

Implications for Fiscal Independence and Urban Development

The combination of high revenue effectiveness and low spending efficiency has a dilemmatic impact on the future development of Medan City. On the one hand, high PAD

effectiveness enhances the city's image of fiscal independence at the national level, positioning Medan City as one of the regions that is resilient in terms of mobilizing independent revenue. This capability guarantees the continuity of stable government operations. However, on the other hand, inefficient spending allocation acts as a brake on the acceleration of urban infrastructure development. Medan City, which is currently struggling to address various crucial problems typical of metropolitan cities—such as traffic congestion, periodic flooding at various strategic locations, slum development, and modernization of public transportation—requires a massive injection of public capital investment funds.

If the investment budget is completely sucked up to finance unproductive bureaucratic routines, the resolution of urban structural problems will be slow and hampered. The long-term impact of this is that Medan's investment competitiveness risks being degraded compared to other metropolitan cities in Indonesia that are able to manage their budgets more efficiently and allocate capital expenditures above the national average.

CONCLUSION

Based on the results of the data analysis and comprehensive discussion presented in the previous chapters regarding the financial management of the Medan City Government for the 2021 to 2025 budget period, several main research conclusions can be drawn as follows:

1. The performance of the management of Regional Original Income (PAD) receipts at the Medan City Government during the five-year observation period was proven to be running according to the criteria. Very Effective, with an average ratio of 100.69%. The success of the regional tax administration system reform through e-government and the digitalization of e-PBB and e-Parking was a key factor in boosting revenue realization above the target set in the regional budget document.
2. The performance of regional expenditure management in the Medan City Government as a whole is in a good condition. Less Efficient, with an average efficiency ratio of 96.48%. The disproportionate spending structure, completely dominated by Operational Expenditures (civil servant salaries, travel expenses, and office supplies), is the primary cause of the erosion of fiscal capacity to fund the Capital Expenditure sector, which is directly oriented to the public.
3. There is a wide performance gap between upstream management (revenue), which is already highly optimized, and downstream management (spending), which is still wasteful. This indicates that the implementation of performance-based budgeting principles within the Medan City Regional Apparatus Organization (APO) is not yet optimal.

REFERENCES

- Audit Board of the Republic of Indonesia. (2022). *Audit Result Report (LHP) on Report Medan City Regional Government Finance Report (LKPD) for the 2021 Fiscal Year*. Medan: BPK RI Representative Office of North Sumatra Province.
- Audit Board of the Republic of Indonesia. (2023). *Audit Result Report (LHP) on Report Medan City Regional Government Finance Report (LKPD) for the 2022 Fiscal Year*. Medan: BPK RI Representative Office of North Sumatra Province.

- Audit Board of the Republic of Indonesia. (2024). *Audit Result Report (LHP) on Report Medan City Regional Government Finance Report (LKPD) for Fiscal Year 2023*. Medan: BPK RI Representative Office of North Sumatra Province.
- Audit Board of the Republic of Indonesia. (2025). *Audit Result Report (LHP) on Report Medan City Regional Government Finance Report (LKPD) for Fiscal Year 2024*. Medan: BPK RI Representative Office of North Sumatra Province.
- Halim, A. (2014). *Public Sector Accounting: Regional Financial Accounting* (Edition 4). Jakarta: Salemba Empat.
- Mahmudi. (2019). *Analysis of Regional Government Financial Reports*. Yogyakarta: STIM YKPN.
- Mardiasmo. (2018). *Regional Financial Autonomy and Management*. Yogyakarta: Andi Publisher.
- Republic of Indonesia. (2022). *Law Number 1 of 2022 concerning Financial Relations between Central Government and Regional Government*. State Gazette of the Republic of Indonesia 2022. Jakarta: State Secretariat.
- Siregar, R., & Lubis, A. (2023). Analysis of the Financial Performance of the Regional Government of North Sumatra Province. *Journal of Economics and Public Finance*, 10(2), 145-158.
- Wahyudi, T. (2024). Digitalization of Regional Revenue and Its Impact on the Effectiveness of PAD in Cities Great Indonesia. *Journal of Accounting and Regional Finance*, 19(1), 34-49.