

Analysis of Budget Realization Reports in Assessing the Effectiveness and Efficiency of the Financial Performance of the Padangsidempuan City Government

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ABSTRACT

This study aims to analyze the effectiveness and efficiency of the financial performance of the Padangsidempuan City Government based on the Budget Realization Report (LRA) for the 2021–2024 period. The problem discussed in this study is the realization of fluctuating regional revenues and expenditures, which affects the stability of fiscal performance in achieving development goals. This study uses a descriptive quantitative method using an analysis of the ratio of effectiveness and efficiency in accordance with the Regulation of the Minister of Home Affairs No. 79 of 2018. The results show that financial performance in terms of effectiveness is categorized as effective, with an average ratio of above 90%, although it has decreased to a fairly effective level in 2023. Meanwhile, efficiency performance remained inefficient to inefficient, with ratios approaching or exceeding 100% in 2022 and 2023, implying that realized expenses were greater than revenue. These findings show that although the government has achieved satisfactory revenue realization, expenditure control has not been optimal. The study concludes that increasing regional revenue sources and implementing performance-based budgeting are important strategies to improve the effectiveness and efficiency of regional financial management.

Introduction

The implementation of regional autonomy gives broad authority to local governments to manage finances independently through the Regional Revenue and Expenditure Budget (APBD). This fiscal independence is an important benchmark in assessing the extent to which local governments are able to realize effective, efficient, transparent, and accountable financial governance. The birth of Law (UU) No. 32 of 2004 concerning

Regional Governments (Pemda) and UUNo. 33 of 2004 concerning the Financial Balance between the Central and Regional Governments, became the starting point for regional autonomy. The law has given broader authority to the district level to carry out all government affairs ranging from planning, control and evaluation. The preparation of the APBD must be in accordance with the implementation of government affairs or operations, as well as comply with the provisions of the law, effective, efficient, responsible, and can provide benefits to the community as explained in Law Number 31 of 2014 and Permendagri Number 31 of 2016. Regional financial management is one of the important instruments in realizing good governance.

According to (Halim, 2020), changes in financial revenues will have a direct effect on the fiscal capacity of local governments in financing public programs and services. If regional revenues increase, fiscal capacity increases, allowing for expanded spending on infrastructure development, public service improvements, and other strategic programs. According to (Halim, 2020), changes in regional revenues will have a direct effect on the fiscal capacity of local governments in financing public programs and services. If regional revenues increase, fiscal capacity increases, allowing for expanded spending on infrastructure development, public service improvements, and other strategic programs. On the other hand, changes in regional spending also have important implications. If regional spending increases, this could reflect higher intensity of development and public services. However, without an increase in revenue, this condition has the potential to lead to a budget deficit (Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 79 of 2018, 2018) (Anthony & Rohman, 2024). Conversely, if regional spending decreases, this can indicate efficiency and savings, but it can also have a negative impact if there is a reduction in essential public service expenditure.

This phenomenon shows the importance of a balance between regional revenues and expenditures to maintain the effectiveness and efficiency of financial management. The city of Padangsidempuan as one of the regions in North Sumatra also faces this dynamic. LRA data in recent years shows fluctuations on the revenue and expense side, which has implications for variations in the achievement of financial performance effectiveness and efficiency ratios. Budget preparation must of course be thoroughly analyzed based on its effectiveness and efficiency in its use and allocation, because the use of inappropriate or inappropriate budgeting or budget preparation will have a direct impact on state finances. Measuring financial performance for the public benefit can be used as an evaluation and recovery of performance by comparing schemes and their implementation. Assessing the financial performance of local governments can be done by looking at their performance through the Budget Realization Report. The effectiveness and efficiency of regional finances is an important measure in evaluating fiscal performance and regional financial management capacity. However, in practice, there are still many local governments that face obstacles in achieving a balance between revenue and expenditure realization. So that

the effectiveness and efficiency of regional finances is one of the important instruments in evaluating the fiscal performance of local governments (Triono Harto, 2025).

Previous studies have shown that the ability of each region to realize its budget management still faces different challenges. Binjai City, for example, shows fluctuations in effectiveness and efficiency due to high fiscal dependence, so the area has not been fully able to maintain a balance between revenue realization and expenditure (Augustine, 2022). South Lampung Regency shows very high effectiveness, but its spending efficiency remains low due to the dominance of routine expenditure, which means that the success of revenue achievement is not accompanied by the ability to control spending optimally (Ameliya et al., 2024). Tarakan City also experienced instability in effectiveness and efficiency influenced by changes in central transfer funds and low PAD contributions, so that its fiscal performance has not shown consistency in realizing the budget (Junaid et al., 2025).

The differences in characteristics and problems between regions show that each region faces obstacles in maintaining the stability of its financial performance, both in terms of revenue and expenditure. However, until now there has been no research that specifically assesses how the City of Padangsidimpuan—which has a relatively small PAD base and significant fluctuations in budget realization—is able to manage its budget during the 2021-2024 period. This gap is what drives the need for research to be conducted to identify the extent to which the effectiveness and efficiency of the financial performance of Padangsidimpuan City can be achieved, thereby providing an empirical understanding of the region's ability to realize more stable and sustainable financial governance.

This is in line with the findings (Bagus Handoko, Anggi Pratama etc, 2019) which states that fluctuations in the effectiveness of Regional Original Revenue (PAD) and the high level of fiscal dependence are the main causes of budget inefficiency in several districts/cities in North Sumatra. The same condition is also experienced by the Padangsidimpuan City Government, where the results of the Budget Realization Report (LRA) for the 2021-2024 period show fluctuating financial performance. In some years, the achievement of regional revenues is in the effective category, but in other years it decreases, while the level of efficiency of expenditure tends to be unstable. This shows that although the government has made efforts to improve financial management, it has not achieved an optimal balance between income and expenditure.

**Table 1. Report on the Realization of the Regional Revenue and Expenditure
Budget of Padangsidimpuan City for 2021-2024**

Year	Description	Budget (Rp)	Realization (Rp)	%
2021	Income	816.000.000.000	779.330.000.000	94,40%
	Shop	892.940.000.000	773.570.000.000	86.63%
2022	Income	779.170.000.000	781.400.000.000	100,25%
	Shop	878.000.000.000	784.430.000.000	89,34%
2023	Income	827.520.000.000	822.520.000.000	99,40%
	Shop	962.160.000.000	891.730.000.000	84,31%
2024	Income	896.550.000.000	828.060.000.000	92,36%
	Shop	953.050.000.000	802.710.000.000	84.23%

Source: <https://prp2sumut.sumutprov.go.id/kabupaten-kota-detail>

Based on table 1 of the data of the Budget Realization Report (LRA) of the Padangsidempuan City Government for the 2021-2024 period, it can be seen that the regional financial performance has not shown consistent stability. The income effectiveness ratio fluctuates from year to year, where in certain periods it is in the category of very effective, but in other years it decreases to be quite effective. On the other hand, efficiency ratios also show significant variation, even at some years approaching the lower efficiency limits. This condition indicates that the realization of regional revenue and expenditure control has not been running optimally. This inconsistency in effectiveness and efficiency has the potential to hinder the achievement of regional development goals and pose risks to fiscal sustainability. Based on these problems, this study was conducted to find out the extent of the effectiveness and efficiency of the financial performance of the Padangsidempuan City Government during the 2021-2024 period and how this affects regional financial governance.

To better understand the dynamics of regional financial performance, it is important to examine the concept of public sector budgeting, which serves as the foundation of regional financial management. The public sector budget is an annual financial plan prepared by the government to allocate public resources effectively and accountably. The APBD not only functions as a planning and control instrument but also as an economic policy tool that reflects the government's development priorities. In the context of regional autonomy, the budget shows the accountability of local governments in managing public funds. The APBD is the basis for the implementation of government programs, which aim to distribute resources efficiently to improve regional welfare (Halim, 2020). One of the main reports used to assess budget performance is the Budget Realization Report (LRA), which measures the ratio of effectiveness and efficiency as stipulated in the Regulation of the Minister of Home Affairs No. 79 of 2018.

Effectiveness reflects the government's ability to realize planned revenues compared to set targets. A high effectiveness ratio indicates that revenue realization meets or exceeds expectations. According to the Regulation of the Minister of Home Affairs No. 79 of 2018, the formula for calculating effectiveness is:

$$\text{Effectiveness Ratio} = \frac{\text{Actual Revenue}}{\text{Budgeted Revenue}} \times 100\%$$

The results are then classified into categories such as:

- Highly effective ($\geq 100\%$),
- Effective (90–99%),
- Quite effective (80–89%),
- Less effective (60–79%), and
- Ineffective ($< 60\%$).

Efficiency, on the other hand, measures the extent to which government spending is economically managed in achieving the planned outcomes. It compares the realized expenses with the actual revenue collected. The efficiency ratio can be calculated using the following formula (Permendagri No. 79 of 2018):

$$\text{Efficiency Ratio} = \frac{\text{Actual Expenditure}}{\text{Actual Revenue}} \times 100\%$$

The interpretation follows the following categories:

- Highly efficient ($\leq 60\%$),
- Efficient (60–80%),
- Quite efficient (80–90%),
- Less efficient (90–100%), and
- Inefficient ($> 100\%$).

Evaluating both ratios provides a comprehensive picture of a government's fiscal performance—effectiveness indicates revenue-achieving capabilities, while efficiency indicates spending control. The combination of these indicators helps determine whether financial management supports sustainable development and improved public services. However, the financial performance of the Padangsidimpuan City Government during the 2021–2024 period has shown fluctuations in both the level of effectiveness and efficiency. In certain years, revenue realization exceeded the target and was categorized as "very effective", while in other years, it declined to the "moderately effective" range. Similarly, efficiency ratios vary between "efficient" and "less efficient", indicating inconsistencies in spending controls. Such instability can limit fiscal capacity and affect the government's ability to sustain sustainable development.

Therefore, the purpose of this study is to analyze the effectiveness and efficiency of the financial performance of the Padangsidempuan City Government during the 2021–2024 period based on the Budget Realization Report (LRA), and provide recommendations for improving regional fiscal governance. The results of this research are expected to contribute to the understanding of regional financial performance and become a reference for local governments in developing more transparent, accountable, and sustainable financial management practices.

Method

This study uses a descriptive quantitative approach, which aims to describe the financial performance of the Padangsidempuan City Government based on measurable data. According to Sugiyono (2019), descriptive quantitative methods are used to analyze a specific population or sample to provide a factual and systematic picture of a phenomenon through numerical data. This approach is appropriate to evaluate the effectiveness and efficiency of regional financial performance using ratio analysis.

Data Source

This study uses secondary data obtained from the Budget Realization Report (LRA) of the Padangsidempuan City Government for the 2021–2024 period. The dataset includes information on regional revenues, expenditures, and financing during the study period.

Research Procedure

The research was carried out through several stages as follows:

1. Collecting data on the 2021–2024 Budget Realization Report (LRA).
2. Classify data into revenue and expense components.
3. Calculating the ratio of effectiveness and efficiency in accordance with the Regulation of the Minister of Home Affairs No. 79 of 2018.
4. Interpret the results of the ratio to evaluate the financial performance category of the Padangsidempuan City Government.

Data Analysis Techniques

The main analytical tool used in this study is financial ratio analysis, which aims to measure the level of effectiveness and efficiency in regional financial management. According to Mahmudi (2021), financial ratio analysis in the public sector serves to assess the extent to which local governments achieve their targeted financial performance.

The ratio of effectiveness and efficiency is calculated using the following formula:

$$\text{Effectiveness Ratio} = \frac{\text{Actual Revenue}}{\text{Budgeted Revenue}} \times 100\%$$

$$\text{Efficiency Ratio} = \frac{\text{Actual Expenditure}}{\text{Actual Revenue}} \times 100\%$$

The calculated ratio is then interpreted according to the criteria outlined in the Regulation of the Minister of Home Affairs No. 79 of 2018. The results are presented in a table and narrative description to provide an overview of the financial performance of the Padangsidimpuan City Government during the 2021–2024 period.

Results and Discussion

Summary

Padangsidimpuan City is one of the cities in North Sumatra Province which was established based on Law Number 4 of 2001 concerning the Establishment of the City of Padangsidimpuan. Padangsidimpuan City is one of the cities in North Sumatra Province which was established based on Law Number 4 of 2001 concerning the Establishment of the City of Padangsidimpuan. The vision of Padangsidimpuan City contained in the development planning document is "The Realization of a Healthy, Smart, Prosperous, and Characterful Padangsidimpuan Community". While the mission of the city government includes improving good governance, requiring access to civil servants, and encouraging healthy economic development,

The organizational structure of the city government is led by the Mayor assisted by the Deputy Mayor and the Regional Secretary. In carrying out his duties, the Mayor is supported by the regional apparatus consisting of various agencies, institutions, as well as sub-districts and sub-districts. Some of the regional apparatus that plays an important role in regional financial management include the Regional Financial Management Agency (BPKD) which is in charge of managing regional revenues, expenditures, and assets, and the Blood Development Planning Agency (Bappeda) which functions to prepare development plans.

Research results

Table 2. Ratio of Financial Performance Effectiveness of Padangsidimpuan City

Year Budget	Regional Revenue Budget (Rs)	Revenue Budget Realization (Rs)	Effectiveness Ratio %	Effectiveness Criteria
2021	824.755.460.147	799.333.949.985	95,58	Effective
2022	820.575.910.194	782.005.116.296	95,29	Effective
2023	852.737.108.368	723.728.392.136	84,87	Quite effective
2024	897.895.779.180	824.755.460.147	91,85	Effective

Source: Padangsidimpuan City LRA Data 2021–2024, processed by the Author (2025)

Based on table 2 above, the effectiveness ratio fluctuated over the study period. In 2021 and 2022, they were in the *effective category*, demonstrating the government's ability to realize revenue according to the target. However, in 2023 there was a decline to *be quite effective* by 84.87% due to the decline in regional income and the slow post-pandemic economic recovery. In 2024, it will again increase to an *effective position* with a value of 91.85%. In general, revenue performance is relatively good even though it has not been stable between years.

Table 3. Efficient Ratio of Financial Performance of Padangsidimpuan City

Year Budget	Realization of Expenses (Rs)	Revenue Realization (Rs)	Efficiency Ratio %	Efficiency Criteria
2021	773.573.857.638	799.333.949.985	99,26	Less Efficient
2022	785.063.419.016	782.005.116.296	100,39	Efficient
2023	831.016.021.246	723.728.392.136	113,41	Efficient
2024	801.604.458.213	824.755.460.147	97,19	Less Efficient

Source: Padangsidimpuan City LRA Data 2021–2024, processed by the Author (2025)

From table 3. From the efficiency ratio, it can be seen that the financial performance of Padangsidimpuan City is still in the category of less efficient to inefficient. In 2022–2023, the realization of expenditure exceeded revenue, with a ratio of 113.41% in 2023. This condition shows weak budget control and waste of routine expenses. Although there will be an improvement in 2024 (down to 97.19%), the government still needs to reduce spending to match the regional fiscal capacity

Discussion

The results of the analysis of the Budget Realization Report (LRA) of the Padangsidimpuan City Government for 2021–2024 show that regional financial performance has fluctuated in terms of effectiveness and efficiency. Based on the calculation results, the effectiveness ratio ranged from 84.87% to 95.58%, with the average being in the effective category. This condition shows that local governments are quite successful in realizing revenue targets, although in 2023 effectiveness will decrease to be quite effective due to weakening regional revenue performance and the impact of the post-pandemic economic slowdown. The year 2024 shows an increase with an increase in the ratio to 91.85%, which reflects improved revenue management.

Meanwhile, the efficiency ratio is in the range of 97.19% to 113.41%, with a tendency to be less efficient to inefficient. The year 2022–2023 recorded the lowest level of efficiency as the realization of expenditure exceeded the revenues received. This shows weak control over spending, especially in routine and unproductive spending. Although efficiency will improve slightly in 2024, government spending is still not fully proportional to the available

fiscal capacity. This condition shows that the government needs to strengthen performance-based budget planning and improve fiscal discipline.

When compared to other regions, the results of this study show that the fiscal performance position of Padangsidempuan is at a medium level. In South Lampung City, The effectiveness rate reaches 107.63% (very effective), but the average efficiency is only 94.16% (less efficient) (Ameliya et al., 2024). Meanwhile, Tarakan City showed an effectiveness between 74.20%– 94.17% and an efficiency between 89.97%–95.52%, which means it is quite efficient but not optimal (Pida, 2021)(Junaid et al., 2025). Compared to the two regions, Padangsidempuan has slightly lower effectiveness than South Lampung but is more stable than Tarakan. However, in terms of efficiency, Padangsidempuan is still lagging behind because its efficiency value tends to be above 100% in a few years, which indicates that expenses are greater than revenue.

The fluctuations in the effectiveness and efficiency of the financial performance of the Padangsidempuan City Government during the 2021–2024 period are inseparable from several structural and situational factors. First, the high dependence on central transfer funds causes the stability of regional revenues to be highly dependent on national fiscal policies. When there is a delay in distributing or adjusting the budget from the central government, the effectiveness performance of the regions also decreases. Similar conditions are also seen in Tarakan City, where fluctuations in effectiveness at the beginning of the research period occurred due to changes in the realization of expenditure influenced by central fund transfers. Second, the optimization of Regional Original Revenue (PAD) in Padangsidempuan City has not been maximized due to the narrow tax base and low level of community compliance in paying taxes and regional levies. This makes the ability of the regions to cover the shortfall of income limited. This situation is similar to that experienced by South Lampung Regency, where its financial effectiveness is relatively high not because of a significant increase in PAD, but because of the setting of relatively low revenue targets so that it is easy to achieve.

Third, the composition of regional spending, which is still dominated by routine spending, also reduces the level of efficiency. Employee and operational expenses take up a large portion of the total budget, while development or productive expenses are still relatively small. As a result, even as revenue realization increases, efficiency remains low due to the expense burden that is difficult to control. This condition is in line with the results of research in South Lampung and Tarakan, where the efficiency level also tends to be low due to an unbalanced expenditure structure. In addition, changes in economic conditions and the impact of the COVID-19 pandemic also affect fluctuations in regional financial performance, especially in 2022–2023. Local governments must make various budget adjustments to support economic recovery and maintain people's purchasing power, which has an impact on increasing social and operational spending. Finally, the quality of budget planning and control, such as delays in the preparation of the APBD and budget revisions in the middle of the year, cause the realization of revenue and expenditure not always in accordance with the set targets.

Conclusion

Thus, fluctuations in effectiveness and efficiency in Padangsidempuan City reflect a combination of fiscal dependence, low PAD capacity, dominance of routine expenditure, and external economic dynamics. This pattern shows that efficiency problems are not only local, but also a common challenge in various regions in Indonesia, as can also be seen in the cases of South Lampung and Tarakan City. This research has important implications for improving regional financial performance. The results of the study show that fluctuations in the effectiveness and efficiency of the Padangsidempuan City Government are mainly caused by fiscal dependence and the dominance of routine expenditures. Therefore, local governments need to strengthen fiscal independence through PAD optimization, expenditure control, and improving the quality of budget planning and evaluation.

Theoretically, these findings reinforce the application of the theory of effectiveness and efficiency in the management of public finances, that fiscal success depends not only on the size of revenues but also on the efficiency of spending. In terms of policy, this study emphasizes the importance of performance-oriented budget management and productive development so that regional financial performance becomes more stable and sustainable.

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