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BUDGET RATCHETING AS A MODERATION OF THE INFLUENCE OF REGIONAL ORIGINAL INCOME AND PROFIT-SHARING FUNDS ON REGIONAL EXPENDITURE

Yudhanti Baiq Alifia*, **Akram**, **Chaidir Taufiq**, **Husnan Lalu Hamdani**
Master's Study Program of Accounting, Faculty of Economics and Business,
University of Mataram, Indonesia
*E-mail: lhkdeby1211@gmail.com

ABSTRACT
This research aims to test and analyze the influence of local revenue and profit-sharing funds on regional spending, as well as the influence of budget ratcheting on local revenue and profit-sharing funds on regional spending. This research was conducted in districts and cities in West Nusa Tenggara Province, with observation years starting in 2017–2021. The sample determination method in this research is the purposive sampling method, with predetermined criteria. This research uses secondary data in the form of Regency/City Revenue and Expenditure Budget (RREB) data and Budget Realization Reports (BRR), which are published on the official website of the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia. This research uses a quantitative approach with data analysis techniques using SPSS 26. The research results show that local revenue has a positive effect on regional spending, profit-sharing funds do not have a positive effect on regional spending, budget ratcheting strengthens the influence of local revenue on regional spending, and budget ratcheting weakens the influence of profit-sharing funds on regional spending.

KEY WORDS
Regional original income, profit-sharing funds, budget ratcheting, regional expenditure.

The government system in the reform era experienced many changes. This can be seen when regional governments are given the freedom to regulate and manage their own regions. This freedom is known as regional autonomy. The background to the implementation of regional autonomy is due to gaps or uneven development taking place between the central and regional governments. This causes obstacles to development in the region. With regional autonomy, regional governments have the right, authority, and obligation to regulate and manage government affairs and the interests of local communities in accordance with statutory regulations.

Decentralization is a policy to realize regional independence. The implementation of regional autonomy provides regional governments with the opportunity to further develop regional potential. One thing that needs to be increased by regional governments is Regional Original Income (ROI). This is to develop existing regional potential. A large ROI can be used to develop more regional potential (Wandira, 2013).

The income received by each regional government can come from original regional income or assistance from the central government. With income from the central government, it is hoped that it can improve public services and community welfare. Regional government revenues, as mentioned above, greatly influence the allocation of regional spending. If spending increases, large funds will also be needed to meet government needs (Setiawan, 2010). The amount of ROI and regional expenditure is determined through the budget preparation process, namely the Regional Revenue and Expenditure Budget (RREB). This process is based on an agreement between the executive and legislature.

Regional government obligations that are recognized as a reduction in the value of net assets in the fiscal year period are called regional expenditures. Regional expenditure is used to fund the implementation of regional government, which is the authority of the province, district, or city, which consists of mandatory and optional matters stipulated by statutory provisions (PP No. 58 of 2005). The implementation of government affairs that fall under regional authority is funded by and at the expense of the RREB. Regional government expenditures reported in the RREB by regional governments are routine regional cash expenditure activities to finance operational activities in government (Setiawan, 2010).

During the RREB preparation process, undesirable things are susceptible to happening due to the personal interests of certain parties. The preparation of the RREB involves many parties; it can be said that the parties involved are agents and principals. The principal is the party who gives authority, while the agent is the party who is given authority. The agent has more information than the principal because the agent is the party who manages or compiles the RREB. The existence of information asymmetry between the agent and the principal can make the agent use the information he has for personal interests (self-interest) (Yulistiara, 2015).

Self-interested or personal-interest behavior can be reflected in corruption cases. There are several cases of suspected RREB corruption in Indonesia; most of the RREB funds are corrupted by regional heads. In 2021, there will be an increase in the handling of corruption cases, which will result in state losses from IDR 18.2 trillion rising to IDR 26.8 trillion in 2021 (https://data.tempo.co). The institution with the most corruption occurring is the district government, with 95 cases and state losses of IDR 6.1 trillion (https://kbr.id). Cases of alleged RREB corruption in West Nusa Tenggara, one of which is the alleged corruption case in the West Nusa Tenggara RREB in 2001-2002 amounting to IDR 24.3 billion (https://nasional.tempo.co).The latest case is the arrest in the alleged corruption case in the procurement of cattle breeds in West Lombok. In this case, the budget is used through the revised RREB for the 2020 fiscal year (https://koranntb.com).

With this many cases, it shows that there are several individuals who take advantage of their position or can be said to be parties who are given authority (agents) for personal interests (self-interest). It was stated by Yenny Sucipto, as Secretary General of the Indonesian Forum for Budget Transparency (IFBT) that corruption does not only occur during implementation but also in the planning process. Even at this stage, it can be said that there is a greater chance of corruption occurring (http://seknasfitra.org).

Regional governments must be able to develop and increase their ROI as much as possible so that they can finance activities to create regional infrastructure through regional spending (Wandira, 2013). The greater the regional capacity to collect ROI, the greater the regional spending allocation. Eita & Mbazima (2008) found that the amount of income (revenues) will determine the amount of expenditure. In local governments in Indonesia, expenditures are budgeted after obtaining certainty about where the funding will come from (Abdullah & Rona, 2014). Regional independence to meet expenditure funding needs is determined by the region's ability to obtain income sourced from its potential, which is called Regional Original Income (ROI).

Research by Mehrara et al. (2011) found that there is a two-way causal relationship between government revenue and government expenditure, which provides support for the fiscal synchronization hypothesis in Asian countries. Nwosu & Okafor (2014) found that expenditure, both in absolute and disaggregated form has a unidirectional relationship with long-term income and that this causality originates from expenditure to income. Furthermore, research by Sari & Asyik (2017) and Nirmala & Putra (2021) found that regional original income has a positive and significant effect on regional spending. However, according to research results, Rusmita (2016) found that ROI has no effect on regional spending.

Profit-Sharing Funds (PSF) are funds obtained by regional governments from State Revenue and Expenditure Budget (SREB) revenues that are based on percentages to meet regional needs in the context of implementing decentralization. The main goal of PSF is to reduce the vertical gap between the central government and regional governments. PSF is an influential source of income and is the basic capital for the government in obtaining development funds and fulfilling regional expenditures that are not from original regional income other than General Allocation Funds and Special Allocation Funds (Liando & Hermanto, 2017).

Profit-sharing funds can be said to be a potential source of regional income and are used as a basis for regional governments to obtain development funds and fulfill regional expenditures apart from regional original income. There are two types of profit-sharing funds transferred by the central government to regional governments: profit-sharing funds sourced from taxes and profit-sharing funds sourced from non-tax sources, namely Natural Resources (NR) (Mulyati, 2017). In a region that has a lot of natural resource wealth and is able to manage it, it can be said that the region is able to finance its own region. After that, the results of the managed resources will be given to the regions in the form of profit-sharing funds using the principle of by-origin (producing regions) and also looking at the realization in the SREB.

Research by Wulandari (2014) and Safa'ah et al. (2021) found that Profit-Sharing Funds (PSF) have a positive and significant influence on Regional Expenditure (RE). However, according to research results from Sari and Asyik (2017), it was found that profit-sharing funds had a negative and significant effect on regional spending. When the Regional Work Unit (RWK) forum was held, the egocentric aroma was very strong. This is where there is an opportunity to input desires through negotiation. Facts on the ground show that the parties involved can be arranged according to the wishes of "certain people" with "certain goals". With this capability, related parties can easily manage the budget for that year. A government agency that knows more about internal conditions could use the previous year's budget as a benchmark in determining this year's budget, but in fact, the budget target that can be achieved could be higher than that target. This happens because the agent wants his performance to look good. If the agency includes the previous budget in the next budget, it can increase this year's budget. The budget increase caused by the previous year's budget variance being included in the following year's budget can be called budget ratcheting. Ratcheting is seen as a waste of budget because an increase in budget is not accompanied by an increase in performance.

Misra (2020) said that ratcheting cases occur in budgeting carried out by regional governments. In practice, there are various patterns of budget ratcheting depending on how local governments respond to pressure to justify budgets (Choi et al., 2021). Sofa's research (2017) found that regional original income and profit-sharing funds had an influence on regional capital expenditure, moderated by budget ratcheting. However, research conducted by Andrean and Sari (2020) shows that original regional income influences regional expenditures, and budget rationing is a moderating variable that weakens the relationship between regional original income and regional expenditures.

This research develops the research of Sofa (2017), which examines the influence of local original income and profit-sharing funds on regional capital expenditure with budget ratcheting as a moderator, and Andrean & Sari (2020), which examines the influence of local original income on regional expenditure with budget ratcheting as a variable moderator. The researcher saw an inconsistency (research gap), so the researcher was motivated to add independent variables and control variables, namely profit-sharing funds and dependence on the center, as research novelty. In previous studies, they tended to only relate the ROI variable to regional spending, which was moderated by budget ratcheting.

THEORETICAL BASIS AND DEVELOPMENT OF HYPOTHESES

Agency theory, according to Jensen & Meckling (1976), describes the relationship between shareholders as principals and management as agents. Management is the party chosen and contracted by shareholders to work in the interests of shareholders. Therefore, management must be accountable for all its work to shareholders. Agency problems will arise because each individual is assumed to have a preference to maximize personal interests, which are likely to be in conflict with the interests of other individuals.

Public sector organizations actually have the same principles as companies in general, in which there are two parties who have a relationship, namely a contract between the agent (the government) and the principal (the people). The people here are the party giving authority, while the government is the party receiving authority. The Regional Revenue and Expenditure Budget (RREB) is a formal contract between the people and the government. This is stated in Law Number 32 of 2004, which states that regents and mayors are elected by the people and are responsible for planning, implementing, and being accountable for government programs.

The problems faced by the legislature can be interpreted as a phenomenon called agency problems (Lupia & McCubbins, 1994). Agency problems involve at least two parties, namely the principal, who has the authority to carry out actions, and the agent, who receives delegations of authority from the principal. The government (agent) as the party receiving authority has an advantage in terms of control of information (information asymmetry) compared to the people (principals). In the end, the superiority of information possessed by the executive (agent), which is used to prepare the budget draft, will be confronted with the superiority of power (discretionary power) possessed by the legislature (principal).

Agency problems arise due to the control of information owned by the government (agent), where the agent can set performance targets using the previous year's performance targets as a benchmark (budget ratcheting) to show that the agent is successful in carrying out his duties, but actually the performance target that can be achieved could be higher than that target. This happens because agents want a relatively safe and comfortable position when carrying out their duties and functions.

Regional original income is regional revenue from various regional government efforts to collect funds for the needs of the region concerned in financing routine activities and development. The greater the regional capacity to collect ROI, the greater the allocation of regional spending, so that there is a positive relationship between ROI and regional spending. ROI has a role in financing the implementation of regional autonomy in order to achieve the main goal of implementing regional autonomy, which is to improve public services and advance the regional economy (Mardiasmo, 2002). If the local revenue obtained by the region is large, then there will be more spending to improve public services. In line with this, Sasana (2011) stated that the greater the regional capacity to collect ROI, the looser the allocation of regional expenditure will be, so that there is a positive relationship between original regional income and regional expenditure.

H_1: Regional Original Income has a Positive Effect on Regional Expenditures.

During the process of preparing the Regional Revenue and Expenditure Budget (RREB), agency problems can be seen, namely that the superiority of information possessed by the executive (agent) which is used to prepare the draft budget will be faced with the superiority of power (discretionary power) possessed by the legislature (principal). The Regional Expenditure Budget listed in the RREB reflects the government's role in determining the priority scale regarding programs and activities to be implemented in one budget year. Regions that budget optimistically will experience positive deviations in their allocations. Based on the priority scale and positive deviations received, the central government can consider it for allocating profit-sharing funds.

Profit-sharing funds are funds sourced from the SREB that are allocated to regions based on a percentage figure to fund regional needs in the context of implementing decentralization. This profit-sharing fund comes from taxes and regional assets. Profit-sharing funds also support regional governments to fulfill public facilities and infrastructure, as well as regional infrastructure, using capital expenditure. This is reinforced by research on districts and cities in Indonesia conducted by Wulandari (2014), which suggests that profit-sharing funds have a positive and significant influence on regional expenditure.

H_2: Profit-Sharing Funds have a Positive Effect on Regional Expenditures.

Budget ratcheting is the amount or pattern of the previous year's budget that is followed in preparing the following year's budget (Lee & Plummer, 2007). This is done to maintain the sustainability of the allocation amount for the next fiscal year. The mindset that every year there will be an increase in budget allocation from the previous year's budget is one of the causes of budget ratcheting. If this mindset continues, this is often called the ratcheting effect. This can cause changes to regional budgets. Budget ratcheting can strengthen the relationship between ROI and regional expenditures. If the previous variance included in this year's budget is positive, it will increase ROI so that regional expenditure will also be greater. If this happens, then it can be used for more things needed for the public interest beneficial.

Agency problems develop in the public sector due to the moral hazard practices carried out by agents during budgeting, such as increasing the budget because the agent has more information than the principal. During the budgeting stage, the existence of ratcheting is generally deliberate, as stated by Lim (2011). There are interests of certain parties (self-interest) so that the budget is increased, which, when realized, will result in large variances. The budget will "rachet" to the previous budget, where favorable variances will be followed by higher performance standards, while unfavorable variances will be followed by lower performance standards.

H_3: Profit-Sharing Funds have a Positive Effect on Regional Expenditures.

Apart from original regional income, a source of funding that can influence regional spending is profit-sharing funds. Profit-sharing funds are funds sourced from central government revenues, which are then allocated to the regions. The allocation is based on a certain percentage, which is useful for funding regional needs. In general, in terms of regional spending and financing, regional governments are still very dependent on the central government. This can be seen from regional income sources, which are dominated by transfers from the central government.

H_4: Budget Ratcheting Strengthens the Influence of Regional Original Income on Regional Expenditures.

In accordance with the formulation of the hypothesis, the conceptual framework of this research is as follows:

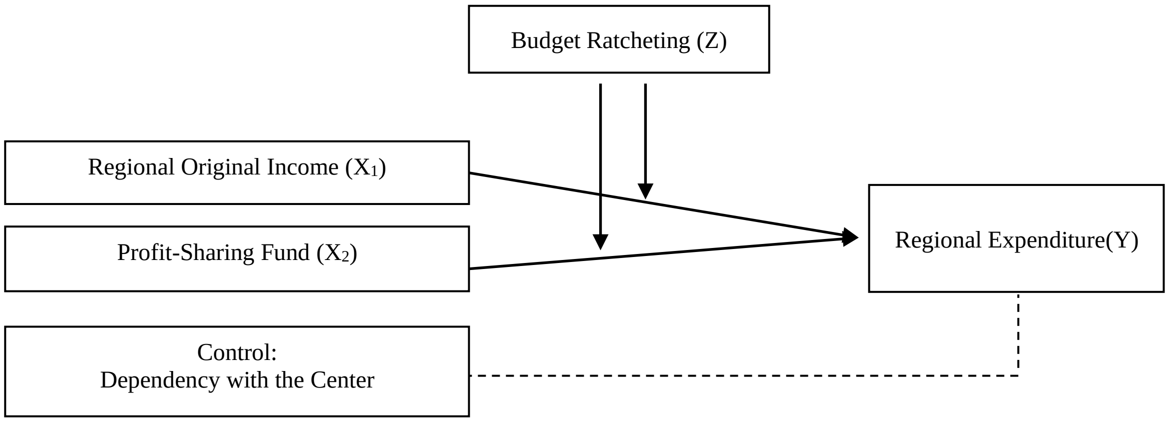

Figure 1 – Research Conceptual Framework

METHODS OF RESEARCH

The population in this study consisted of all districts and cities in West Nusa Tenggara Province, consisting of 8 districts and 2 cities, with observation years ranging from 2017 to 2021. The sampling technique is purposive sampling. Sampling was carried out in accordance with established criteria, namely districts and cities with Regency/City Revenue and Expenditure Budget (RREB) data and Budget Realization Reports (BRR) published on the official website of the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia.

The measurement of Regional Original Income (ROI) uses an interval scale with units of billions of rupiah from the total ROI for each regency or city sourced from data from regional income and expenditure budget reports (RREB) for the 2017–2021 fiscal year. The measurement of Profit-Sharing Funds (PFS) uses an interval scale in billions of Rupiah from the amount of profit-sharing funds for each regency or city sourced from Transfer to Regional and Village Fund (TRVF) report data for the 2017–2021 budget years. Budget Ratcheting (BR) is measured using the model from Aranda (2010). The measurement of dependency on the center is expressed using the formula for the amount of general allocation funds divided by total income. Measurement of Regional Expenditures (RE) is measured using an interval scale in units of billions of Rupiah from the total regional expenditure for each regency or city sourced from data from regional income and expenditure budget reports (RREB) for the 2017–2021 fiscal year. Statistical testing in this study used IBM SPSS 26.

RESULTS OF STUDY

Model testing in this research uses SPSS 26 software. Based on the results of multiple linear regression analysis, goodness of fit will then be observed, namely looking at the coefficient of determination value of each model. The higher the R^2 value, the better the prediction of the proposed research model.

Table 1 – Multiple Linear Regression Model I

Y = 2.975 + 0.393 X1 + 0.208 KP + e	
Sig-value	0.000
t-value	6.498
F-value/sig	22.976/0.000
R/R^2/Adj R^2	0.703/0.494/0.473

The test results of the influence of local original income on regional spending produced an R^2 value of 0.473, meaning that regional spending can be explained by 47.3% of local original income, while the remaining 52.7% is influenced by other variables outside the research model.

Based on Table 1, the results t test show that the t_{count} is 6.498, while the t_{table} is 2.012. The calculation results show a $t_{count} >_{table}$ with a significance level of 0.000 or a probability below α = 0.05. From the results of this calculation, a decision can be made to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1), meaning that regional original income has a positive effect on regional spending.

Based on Table 1, the results obtained by the Sig value in the Anova table are 0.000 (0.000 < 0.05), so the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted, meaning that regional original income simultaneously has a positive effect on regional expenditure.

Table 2 – Multiple Linear Regression Model II

Y = 8.150 – 0.138 X1 – 0.668 KP + e	
Sig-value	0.094
t-value	1.711
F-value/sig	2.506/0.092
R/R^2/Adj R^2	0.310/0.096/0.058

Then the test results of the influence of profit-sharing funds on regional spending produced an R^2 value of 0.058, meaning that regional spending can be explained by local original income of 5.8%, while the remaining 94.2% is influenced by other variables outside the research model.

Based on Table 2, the results obtained have a Sig value of 0.094 (0.094 > 0.05), and the results of the t test show that the t_{count} is -1.711 while the t_{table} is 2.012, so the null hypothesis (H_0) is accepted and the alternative hypothesis (H_2) is rejected. This means that profit-sharing funds do not have a positive effect on regional spending.

Based on Table 2, the results obtained by the Sig value in the Anova table are 0.092 (0.092 > 0.05), so the null hypothesis (H_0) is accepted and the alternative hypothesis (H_2) is rejected, meaning that simultaneous profit-sharing funds do not have a positive effect on regional spending.

Furthermore, the test results of the effect of budget ratcheting on the relationship between original regional income and regional spending produced an R^2 value of 0.475, meaning that regional spending can be explained by original regional income of 47.5%, while the remaining 52.5% is influenced by other variables outside the model study.

The results of the two regressions carried out in tables 1 and 3 show that there was an increase in R^2 from 0.473 to 0.475, or 47.3% to 47.5%. From the results of this calculation, a decision can be made to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_3), meaning that budget ratcheting strengthens the influence of local revenue on regional spending.

Table 3 – Multiple Linear Regression Model III

Y = 2.516 + 0.955 X1 – 0.178 X1BR + 0.280 KPBR + e	
Sig-value	0.500
t-value	0.682
F-value/sig	8.047/0,000
R/R^2/Adj R^2	0.736/0.542/0.s475

Based on Table 3, the results obtained by the Sig value in the Anova table are 0.000 (0.000 < 0.05), so the null hypothesis (H_0) is rejected and the alternative hypothesis (H_3) is accepted, meaning that budget ratcheting strengthens the influence of local revenue on regional spending.

Table 4 – Multiple Linear Regression Model IV

Y = 17.023 + 0.078 X2 – 0.071 X2BR + 1.377 KPBR + e	
Sig-value	0.968
t-value	0.041
F-value/sig	0.980/0.444
R/R^2/Adj R^2	0.355/0.126/0.003

The test results of the effect of budget ratcheting on the relationship between profit-sharing funds and regional spending produced an R^2 value of -0.003, meaning that regional spending can be explained by the regional original income of 0.3%, while the remaining 99.7% is influenced by other variables outside the research model.

The results of the two regressions carried out in tables 2 and 4 show that there has been a decrease in R^2 from 0.058 to 0.003, or 5.8% to 0.3%. From the results of this calculation, a decision can be made to accept the null hypothesis (H_0) and reject the alternative hypothesis (H_4), meaning that the existence of budget ratcheting weakens the influence of profit-sharing funds on regional spending.

Based on table 4, the results obtained by the Sig value in the Anova table are 0.444 (0.444> 0.05), so the null hypothesis (H_0) is accepted and the alternative hypothesis (H_4) is rejected, meaning that budget ratcheting weakens the influence of profit-sharing funds on regional spending.

DISCUSSION OF RESULTS

The Influence of Regional Original Income on Regional Expenditures. The first hypothesis (H_1) proposed is accepted. The results of statistical tests show that the significance level of the regional original income variable for the regional expenditure variable is 0.000, smaller than the significance level of $\alpha = 0.05$. This means that regional original income has a positive effect on regional spending during 2017–2021, with the direction of the influence being positive. These results show that if regional original income increases, regional original income will also increase.

Regional original income can currently increase because district and city governments are starting to implement several policies, one of which is that parking payments can be made through digital payments, or what is known as the Quick Response Code Indonesian Standard (QRIS). Through this digital payment system, people can make payments more easily. With an increase in regional income, regional government needs can be met with regional spending.

The results of this research are in accordance with the findings of several previous researchers who stated that local original income influences regional spending (Abdullah & Junita, 2016; Rahmawati & Rohman, 2010; and Nurhayati, 2018). The greater the local government's regionaloriginal income, the greater the regional expenditure allocation that can be used to fund regional development. Regional original income will be greater with the results of regional taxes, regional levies, separated regional wealth management results, and other legitimate ROI that is well managed by the regional government. It is hoped that the extensive availability of natural resources can be managed well by each regional government, thereby providing opportunities for regional governments to allocate greater regional spending so that it can be used to improve public services.

The Influence of Profit-Sharing Funds (PSF) on Regional Expenditures. The second hypothesis (H_2) proposed is rejected. The results of statistical tests show that the significance level of the regional original income variable for the regional expenditure variable is 0.092, greater than the significance level of $\alpha = 0.05$. This means that profit-sharing funds have no effect on regional spending during 2017–2021, with the direction of the influence being positive. These results show that if profit-sharing funds increase, regional spending will also increase.

PSF is allocated by the central government to regions based on a percentage figure to fund regional needs in the context of implementing decentralization. The findings of this research are contrary to Law no. 33 of 1999 concerning the financial balance of the central government and regional governments. This happens because local governments are still not optimal in exploring their tax potential and natural resources, so the PSF transferred by the central government is a small percentage. If the percentage is small, then decentralization is not running optimally as planned by the central government.

The results of this research are in accordance with the findings of previous researchers, who stated that profit-sharing funds have a negative and significant effect on regional spending (Nirmala & Putra, 2021). This shows that the higher the revenue-sharing funds provided by the central government to regional governments, the greater the regional expenditure that must be spent. This can mean that regional governments are getting better at managing their regional finances, but if the revenue sharing funds provided by the central government to regional governments are low, then it can be interpreted that the region is not yet optimal in managing its natural resources and taxes. The Gianyar Regency Government's profit-sharing fund has a positive but not significant (statistically significant) influence on regional expenditures (Sari & Asyik, 2017). This shows that the less effective the use of profit-sharing funds, the less economical regional spending will be, but this is not significant.

The Effect of Budget Ratcheting on the Relationship between Regional Original Income and Regional Expenditures. The third hypothesis (H_3) proposed is accepted. This means that budget ratcheting strengthens the influence of local original income on regional spending during 2017–2021 with a positive direction of influence. The test results in Table 1 show R^2 of 0.473, and in Table 3, after budget ratcheting moderation, R^2 has increased to 0.475. These results show that the existence of budget ratcheting will further strengthen the influence of local original income on regional spending.

The results of this research are in accordance with the findings of Abdullah and Junita (2016), Nurhayati (2018), Susanto and Halim (2018), and Sofa (2017), who stated that budget ratcheting affects the relationship between local original income and regional expenditure. This result is also in line with other findings that there is a relationship between spending budget variants that appear to be overspending and increases in the next year's spending budget (Lee & Plummer, 2007). This means that there is a bias in determining regional government budget targets. The existence of information asymmetry about the abilities of superiors and their subordinates makes superiors use previous performance to update current performance targets. That is, the budget will "ratchet" towards previous performance, where "favorable" variances will be followed by higher performance standards, while unfavorable variances will be followed by lower performance standards (Weitzman, 1998).

In terms of the public sector, obtaining high regional income means that regions manage their budgets in such a way that they are able to cover the shortfall or deficit in the current year or even in future years by using the previous year's budget surplus. This can be categorized as a form of budget ratcheting.

The Effect of Budget Ratcheting on the Relationship of Profit-Sharing Funds to Regional Expenditures. The fourth hypothesis (H_4) proposed was rejected. The results of statistical tests show that budget ratcheting weakens the influence of profit-sharing funds on regional spending during 2017–2021, with the direction of the influence being positive. The test results in table 2 show R^2 of 0.058, and in table 4, after budget ratcheting moderation, R^2 has decreased to 0.003. These results indicate that the existence of budget ratcheting will further weaken the influence of profit-sharing funds on regional spending. The results of this research contradict the findings of other researchers who found that profit-sharing funds had an effect on regional capital expenditure, moderated by budget ratcheting (Sofa, 2017).

CONCLUSION

Regional original income has a positive effect on regional spending. The regional governments in the research sample have large revenues from ROI, so it can be concluded that the greater the regional ability to collect ROI, the greater the allocation of regional spending, so that there is a positive relationship between ROI and regional spending.

Profit-sharing funds do not have a positive effect on regional spending. The research sample has a small PSF acquisition compared to all other balancing funds. If the percentage of profit-sharing funds is small, then the regional government will not be able to provide public services that are realized through regional spending.

Budget ratcheting strengthens the influence of local revenue on regional spending. Obtaining high regional income makes regions manage their budgets in such a way that they are able to cover the shortfall or deficit in the current year or even in future years by using the previous year's budget surplus. This can be categorized as a form of budget ratcheting.

Budget ratcheting weakens the influence of profit-sharing funds on regional spending. The profit sharing budget for 2017–2021 is very small, so it is unable to cover the shortfall or deficit in the current year or even in future years using the previous year's excess budget.

Limitations and future research directions. This research has several limitations that can certainly be corrected in future research. The limitations of this research include the following: (1) Most of the coefficients of determination produced in this research have coefficients of determination below 50%. Especially the profit-sharing fund variable still does not show a high coefficient of determination. This means that there are still other variables that have a significant influence on regional spending. (2) The use of a moderating variable, namely budget ratcheting, has different results for each independent variable, namely weakening and strengthening, which is highlighted in the results of this research. In the third hypothesis, budget ratcheting strengthens the influence of local revenue on regional spending, but this is not the case with the fourth hypothesis, where budget ratcheting weakens the influence of revenue-sharing funds on regional spending. (3) The scope of this research only covers districts and cities in one province for 5 years, so the research results cannot be generalized to a wider population.

Based on the conclusions and limitations of the research, the researchers provide several suggestions, namely: (1) In future research, it is hoped that they will add related independent variables so that they can add to the research treasures such as general allocation funds and special allocation funds, which are moderated by budget ratcheting. (2) Future researchers are expected to use budget ratcheting variables in more complex relationships, such as using budget ratcheting as an intervening variable or as a predictor variable. (3) Future research is expected to increase the observation period and increase the research population by comparing one province with another, not just one province.

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