Budget Bias in District and City Goverments in Central Java Province

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Abstract: This research is aimed to know the effect of budget ratcheting in local revenue and balancing funds. This study also examines how the effects of budget ratcheting in the relationship between regional income and regional expenditure. This research is categorized as causative research and data analysis tests such as the t-test, F-test, and determination test. The population in this study are all districts and cities in the Province of Central Java which are 29 districts and 6 cities. Sampling in this study was conducted using total sampling. The data in this study were sourced from the report on the realization of regional revenue and expenditure budgets for district and city government in the Province of Central Java in 2016-2018. The results of this study indicate that the budget ratcheting effect in local revenue and balance funds. The results of this study also show that local revenue affects local spending and budget ratcheting to weakens the relationship between the two.

I. INTRODUCTION

Ratchet effect in literature economy is a behavioral bias in the emerging budgeting process from use information performance from period previously as base for set objective performance through the negotiation process in context connection agency (Indjejikian& Nanda, 1999) [1]. With Thus, the effect of ratcheting on the drafting process budgeting organization government is one explanation on growth behavior based budget opportunistic agents and principles.

Determination quantity allocation budget for period next often could determine with method use performance budget as base evaluation performance management. Use budget as reference in determine budget in period next describe the context that suggests incrementalism in budget. Incrementalism have associative negative, it means if budget period previously load a resultant bias behavior opportunistic by the author budget in shaped creation, ordinary given name with ratcheting effect or budget ratchet.

In an organization public, goal main budget is for limit spending and prioritizing expenditure in limit that. By generally limit expenditure defined with refers to the expected income, then balance sheet or deficit budget no exceed threshold given limit. With thus there is income bias incentives (Anessi -Pessina, 2015) [2]

According to Rubin (1993:2) [3] the budgets reflect priority shopping areas that lead to service public. Budget reflect priority shopping areas that lead to service public. Shopping area used for organize affairs government in scope government area (province or district / city) both those that are must nor choice. Structure covers shopping no direct and shopping straight away.

Amount remainder budget at the end year is indicator from quality budget government and are affected by biases in formulation budget (Anessi -Pessina & Sicilia, 2015; Larkey & Smith, 1989) [4] politics budget (Diermeier & Fong, 2011), and behavior opportunist creators decision budget (Smith & Bertozzi, 1998).

In implementation budget year walk possibility there is difference Among planned goals and required goals so that need customization or revised in fiscal. Due to arrangement budget beginning there is a bias (Larkey& Smith, 1989; Anessia -Pessina & Sicillia, 2015) [2] the process of change budget also tends experiencing bias, because composing budget beginning and change actual no different by significant Anessi- Pessina, et al., 2015). Many factors are empirical proven influence change budget government area (Forrester & Mullins, 1992; Anessia -Pessina, et al., 2012; Dougherty, et a., 2003).

As Constitution Number 23 of 2014 concerning Regional Government, the Regional Government organizes affairs government in accordance with authority, except affairs government. Government area should operate autonomy as wide as possible in organize affairs government that becomes his authority. Arrange his business alone in accordance with principle government alone and task assistance. Budget government area arranged every year in accordance with guidelines composing Budget Regional Income and Expenditures determined by the Regulation of the Minister of Home Affairs. Guidelines the arrange determination forecast every component Budget Regional Income and Expenditure (income, expenditure, and financing) with consider regulation legislation each components, assumptions macroeconomics, and realization budget from period before. Budget Regional Income and Expenditure includes plan finance for various element income area, shopping area, and financing area.

According to Halim in Rahmawati (2010) [5] in context governance and service organization _ public based on principle decentralization, the area is given authority for pick up taxes / levies and manage source power nature. Source of funds for area consist from Income Original Regional Balance Fund and loans area, deconcentration. Three sources first direct managed by the government area through Budget Regional Income and Expenditures, while others organized by the government center through work same with government area.

Province Central Java consists of 29 Regencies and 6 Cities have receipts and disbursements finance respective government different according to area. Every expenditure government area based on ownership reception in the form of income potential area or more known with Income Original Region which includes : income taxes and levies area, income Profit of Owned Enterprises Regional and other legal income . Eita &Mbazima (2008) [6] found that big income will determine big expenditure. In government regions in Indonesia, expenditure budgeted after source funding identified (Abdullah and Rona, 2015) [7]Independence area for fulfil need funding shopping the depending on ability area in produce income from its potential, which is known with Income Original Region. Amount Income Original Region is factor important in count the amount of Balancing Fund received every district in Allocation Fund form General. If the Allocation Fund General used for fund operational government area, then Income Original Region can allocated in accordance with priority development area on policy area alone. Use wisdom Income Original Region including conflict interests and problems agency (Abdullah, 2012) [8].

The Central Java Provincial Government is one of the entire government regions in Indonesia that show good achievements. Revenue and Expenditure Budget the Regional Government of Central Java Province has increased from year to year as by carrying out various developments both in the form of the regional tourism sector and other public sectors. This is certainly in accordance with the purpose of the study to determine the effect of the budget ratcheting in government budgeting by implementing a performance-based budget that occurs in Regional Original Income and Balancing Funds.

This study also analyzes the effect of Regional Original Income on Expenditures Region and budget ratcheting as moderating variables. The results of the research are expected able to add to the literature related to research objectives and can add insight readers in understanding the issues that are currently developing among the government areas in Indonesia. The results of this study are also expected to provide implementation for local government in improving the budgeting process that will be carried out in the future which will come.

II.   LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Agency Theory

Agency theory is part of game theory which studies the proper design of contracts to align the interests of the agent and the principal when the interests of the agent conflict with the interests of the principal (Scott, 2015). In this theory, there are two parties who enter into an agreement or contract, which gives power to one party or is called the principal, and the other party who receives the power or is called an agent (Halim & Abdullah, 2006) [9]. Agency

problems arise when there is a delegation of authority by the principal to the agent for decision making (Zimmerman, 1997) [10]

Each approach to budgeting has advantages and disadvantages (LeLoup, 2001). Therefore, it implies many parties (budget actors) (Rubin, 1993) [3], the budget as a very dynamic process, so it has a tendency to bias (Larkey& Smith, 1989; Jones &Euske, 1991), budget variance (Mayper, 1991) and agency problems (Abdullah, 2012; Smith &Bertozzi, 1998; Forrester, 2001; Fozzard, 2001).Local government budgets are actually complex, reflecting complex legislative and executive relationships (Abdullah, 2012) [8].Lauth (2002) says there is a principle of separation of powers and decision making in the public sector budget. In the public sector (including government) organizational activities are carried out on the basis of the availability of funds in the budget, not with the intention of obtaining financial benefits or benefits from using the budget.

In its development, there are several approaches to public sector budgeting, especially central/federal, state or local government budgeting. (Abdullah, 2012) [8]. According to Rubin (1993:2), the budget is part of the government's accountability and accountability mechanism to the public, who want to know how the government uses its money. That is, the budget reflects the relationship between people's aspirations and the results achieved by local governments to achieve these aspirations.

Costello, et al. (2012) [11] said in the concept of a balanced budget (balanced budget rule), if the government is unable to fund the current budget year, expenditures can be transferred to the next fiscal year, but this is often not done so. One of the reasons is to form a "base" for the current year, so that it can become a "foundation" in determining the next year's budget. Meanwhile, according to Hye& Jalil (2010), the relationship between income and expenditure is directional.

2. Locally-Generated Revenue

Regional original income is regional income obtained from existing resources in an area and then collected in accordance with Regional Regulations (Law Number 33 of 2004) with reference to applicable laws and regulations. Regional original income describes the achievement of an area or district in financial management and economic growth.

Local governments also have the authority to revise property taxes in their area, such as revising tax assessment practices, so as to increase tax revenues (Mullins &Wallin 2004; Carroll 2009).Local governments can explore and utilize these sources of Regional Original Income optimally. The Regional Original Income group is separated into four types of income, namely (Halim, 2002) [12]:

1. Regional Tax is regional income derived from taxes.
2. Regional levies are regional revenues originating from local taxes. In the new APBD structure with a performance approach, the types of income derived from regional taxes and territorial returns are based on Law Number 34 of 2000 concerning Amendments to Law no. 18 of 1997 concerning Regional Taxes and Regional Retribution
3. The results of regionally-owned companies and the management of separated regional assets are derived from regional revenues derived from regional companies' revenues and the management of separated regional assets.
4. Other Legitimate Regional Original Income.

3. Balancing Fund

Balancing Fund is a form of regional revenue originating from transfers from the Central Government to Regional Governments as a form of implementing a decentralized system. According to Renyowijoyo (2013), balancing funds are divided into: Revenue Sharing Funds, General Allocation Funds, and Special Allocation Funds.

There are two types of balancing funds, namely general balancing funds (block grants) and specific grants. General balancing funds are regionally owned funds that can be used by regional governments in accordance with regional needs. Therefore, in this case the local government can formulate its own policy on the use of block grant funds. Meanwhile, the use of special funds or special subsidies is determined by the higher government that provides these funds. In other words, local governments may not use these funds for activities other than those specified.

4. Regional Expenditures

Regional expenditure is the obligation of the regional government and is deducted from the net worth during the fiscal year. Regional expenditures refer to resources used in government affairs that carry out provincial or district/city authorities, both mandatory and optional. Mandatory affairs management expenditures are prioritized to ensure and improve the quality of people's lives, seek to fulfill regional obligations in the form of improving basic services, education, health, social and public facilities, as well as developing social security systems. The Minister of Home Affairs Regulation Number 13 of 2006 states that there are two divisions of regional expenditures, namely indirect expenditures and direct expenditures.

Based on PP No. 58 of 2005 concerning Regional Financial Management, regional expenditures are used to carry out government affairs which are the authority of the province or district/city, including mandatory and optional affairs according to the provisions of laws and regulations. Since the implementation of regional autonomy and fiscal decentralization policies in 2001, regional budgets have not only ranged from the types of funds allocated to regions, but also the regionalization of funds allocated.

5. Budget Ratcheting

Budget deviations are seen in the increase in the budget of the next period in response to the negative variance of the previous period's budget. If the performance difference is permanent, the difference in the variance of the previous performance is relevant information for the principal. The use of prior performance information may revise the principal's belief about the agent's ability to perform over some period. The agent's comparative advantage creates information asymmetry that causes the principal to misjudge the agent's actual performance capability and gives the agent the opportunity to reduce performance capability, create slack, and modify discretionary accruals or manipulate actual activity (Bouwens&Kroos, 2011) [13].

Lim (2011) [14] shows that positive variance in earnings (difference between realized and budgeted) is associated with future budgeted earnings, whereas negative variance in earnings is not. Positive variance reflects good performance, so this pattern can be imitated to determine performance targets for next year. In cases where the agency problem is large, namely the level of information asymmetry is also high, then the possibility of budget ratcheting is more likely to occur.

An increase in target revenue from taxes will increase government spending (tax-spend hypothesis). However, this increased level of spending will not return to what it was, despite resistance to the tax increase (and the tax being lowered later). The ratchet effect model predicts that the spending target will be relatively constant, unless it is disturbed by some external event (Aranda, 2010) [15].

A favorable change in last year's performance is associated with an increase in targets for this year, while an unfavorable change in performance is associated with a decrease in next year's target. This effect is consistent with the performance change associated with the permanent component. The purpose of ratcheting is to reduce the budget gap and impact on the costs incurred by participatory budgeting (Aranda, Arellano, & Davila, 2014) [16].

Leone & Rock (2002) [17] found that ratcheting is a form of information asymmetry, namely an imbalance of information between the agent and the principal. This finding is in accordance with the concept of setting performance targets where there is stronger ratcheting of the previous profitable variant than the previous unfavorable variant. While Fisher, et al. (2006) found that ratcheting is symmetrical in behavior.

Budget ratcheting results in the future budget being the same as the previous period's budget, plus there are differences between the company's budgets including: First, the government's budget objective is to budget expenditures or financing for regional development and run government operations, while the company's budget is carried out for estimate profit. Second, Budget Ratcheting in the company's budget is related to bonuses based on the achievement of profits that benefit the company, while Budget Ratcheting for the government is related to public losses due to inefficient budget growth (Lee & Plummer, 2007) [18].

HYPOTHESIS DEVELOPMENT

This study uses 2 independent variables. Namely: Regional Original Revenue (X1) variable, Balanced Fund variable (X2), Moderating variable (Z) Budget Ratcheting and dependent variable (Y) Regional Expenditure.

1. The Influence of Regional Original Income on Regional Expenditures

Narayan and Narayan (2006) [19] explain connection Among expenditures and revenues that occur in government. If occur deficit budget income and expenditure, policy for Upgrade income government should implemented. Causality two direction for decision income government created by independent will cause deficit more budget high, which will cause expenditure government grow faster than income government.

The results of Abdullah's research (2012) [8] show that representative institutions in the regions tend to be opportunistic by proposing changes to the target area's revenue from local revenue which will then be used for funds that usually increase the allocation of proposed expenditures when discussing the draft budget for regional regulations on Regional Expenditure Revenue.

Study previously researchedabout connection Among income original area to shopping area namely Abdullah and Junita (2016), Rahmawati (2015), and Sari, et al (2019) concluded thatthat local revenue has a significant effect on regional spending. Studies this could concluded that through income original high area, then could concluded that government could reduce dependence on the government area [5]. Based on the discussion above, then hypothesis first could declared as following :

H_1 : Income Original area of influence to Regional Expenditures

2. Effect of Balancing Fund on Regional Expenditures

Balancing fund is a transfer of funds from government center to government target area for close gap fiscal and balancing capacity fiscal between area, so that could help government area by independent in carry out duty and serve society. The financial balance with the central government transfer funds to the regions is the driving force for regional governments to finance regional expenditures.

Chang and Ho (2002) in Prakosa (2004), discusses connection Among income and spending area in various literature economics and finance area by large since end 1950s decade. Aziz (2000) and Doi (1998) explain in prakosa (2004), that various hypothesis about connection this has tested by empirical. Wulansari (2015) and Ferdian (2013) explain their findings showing that the Balancing Fund has a significant effect on Regional Expenditures, which means that if the Balancing Fund increases, Regional expenditures also increase. Based on this description, the second hypothesis of this research is as follows:

H_2: Balancing Fund influential to Regional Expenditures

3. Budget Ratcheting on Local Revenue Budgeting

Budgeting Income Original Region is the process of determining revenue targets (revenue forecast) in area. In management finance area, it is hoped existence independence capable area fulfil all need funding shopping that will determined. This thing Becomes objective in implementation acquisition Income Original Region. In the process of setting revenue targets in the neighborhood government often get obstacles as bias and error behavior (error), so that lead to revenue targets set above (over forecast) or below (under forecast) capacity actual fiscal. This thing depending on the policy you want achieved by politicians (Voorhees, 2006). High dependency or existence pressure strong budget could push branch executive for set more revenue targets low or small (under forecast) from capacity fiscal actual (Voorhees, 2006) [20].

Party Executive usually set relative targets under forecast for every component income (Marlowe, 2009). Existence increase in revenue target for level certain on the basis of realization income year previously will give legitimacy for government area for Upgrade expenditure or shopping in year next. Situation this thus known with term pro cyclical ratchet in budgeting (Marlowe, 2009). That is, in the process of budgeting local revenue by the government, many parties have an interest in increasing or decreasing the budget due to opportunistic behavior among budget actors. Based on this description, the third hypothesis of this research is as follows :

H_3 : Budget Ratcheting has an effect in Budgeting Income Original

4. Budget Ratcheting on the Balancing Fund Budget

Information about allocation funds general and allocation funds special submitted by the government center, then discussion budget areas carried out by the executive (head) regionsand the legislature. Second type of balancing fund this no experience significant change along year because determined by the formula or consideration certain. However Thus, other types of balancing funds can be changed materially because assumptions made at calculation beginning different with real assumptions laterday. For example, balancing funds in the form of funds for result.

In literature economics and finance area, relationship Among income and expenses area has discussed by large since the late 1950s, and various hypothesis about connection this has tested by empirical, show that income influence shopping. Meanwhile research (Bambang Prakosa, 2004) on the impact of grants from the Central Government on spending decisions or Regional Government Expenditures has been carried out for more than 30 years. Holtz-Eakin, et al (1985) in Bambang Prakosa (2004) said : that there is very relationship close between Central Government transfers and Expenditures Local Government. Based on the discussion above, the fourth hypothesis can be stated as follows :

H $_4$: Budget Ratcheting influential in Balancing Fund Budget

5. Budget Ratcheting in Moderating the Relationship Between Regional Original Revenue and Regional Expenditures

One hypothesis in theory finance public show that income determine shopping (tax-spend hypothesis) no on the contrary. A number of studies give Proof empirical about Thing this (Poterba, 1995), but in practice budgeting, relations the almost always biased because there is a bias in determination of income targets (Larkey& Smith, 1989).

Lim's study (2011) [14] gives Proof existence ratcheting budget for cases of 50 cities in the United States. by special, budget income with variance positive linked with enhancement budget income for year next, while budget income with variance negative no related with enhancement budget future income. With Thus, relationship Among variant budget period walk own correlation with revenue target determination year next (Lee & Plummer 2007; Bouwens&Kroos, 2010).

Kim (2002) found that budget ratcheting is happening when problem agency the more severe. It turns out variant negative in budget income moment this is also because weak power mayor (lower major power index). However, budget income with variance positive, which leads to an increase budget income next, also influenced by power strong mayor (higher major power index).This thing prove that when problem agency Becomes more bad, budget target income period next not enough responsive to change period walk. With Thus, the fifth hypothesis is :

H $_5$: Budget Ratcheting moderates the relationship between Regional Original Revenue and Regional Expenditure

III.   METHODS

1.   Data

The data analyzed in this study is secondary data sourced from the Realization Report of the Regional Revenue and Expenditure Budget in Regency and City Governments in Central Java Province in 2016-2018.The type of data in this study is quantitative data in the form of numbers and is objective.Quantitative data consists of Regional Original Revenue, Balancing Fund and Regional Expenditure.In this study also uses a balanced type of data.The number of Regional Governments in Central Java Province itself is 35 Regency/City Governments consisting of 29 Regencies and 6 Cities. Central Java Province is a province located in the middle of Java Island, which is directly adjacent to the Provinces of West Java, East Java, and the Special Region of Yogyakarta.

2.   Variable Measurement

One aspect that is usually found in the formation of budgeting targets is the existence of budget ratcheting. This is due to the formation of the next year's performance target which is determined due to the difference between the previous year's performance target and the target for that year (Aranda, Arellano & Davila, 2015). In this research, budget ratcheting becomes the moderating variable. The measurement of this variable uses the model from Aranda (2010) on Abdullah and Junita (2016) as follows:

$$\text{PAD}_t - \text{PAD}_{t-1} = \delta + \gamma\,(\text{PADR}_{t-1} - \text{PAD}_{t-1}) + \varepsilon$$

Where PAD_t is the Regional Original Revenue Budget for the current year. $\text{PAD}_{t-1}$is the Regional Original Revenue Budget of the previous year. δ is a Constant. γ is the regression coefficient. PADR_{t-1} is the Realization of Regional Original Income in year t-1. $\text{PAD}_t - \text{PAD}_{t-1}$measures the increase in the current year's PAD budget compared to last year's PAD budget. This is used to see the existence of budget ratcheting in determining PAD targets.

Budget Ratcheting on Regional Original Income and Balancing Funds

To see if there is a change in the budget that results in a budget ratcheting effect on Regional Original Revenue, Balancing Funds, and Regional Expenditures, we can use the model developed by Lee and Plummer (2007):

$$\text{B}_t - \text{B}_{t-1} / \text{B}_{t-1} = \delta + \lambda^+\,(\text{A}_{t-1} - \text{B}_{t-1}) + \lambda^-\,\text{U}_t^{\,*}\,(\text{A}_{t-1} - \text{B}_{t-1})$$

This model is used to determine the effect of the previous period's budget and regional income variance on the current period's regional budget and revenue. Where $\text{B}_t$is the regional budget and revenue for the current year. B_{t-1}regional budget and revenue in the previous year. A_{t-1} regional expenditure and revenue realization in the previous period. λ^+ adjustment regression coefficient for positive variance. λ^- Adjustment regression coefficient for negative variance. δ is a Constant. In this case, U_t is equal to 1 if budgeted expenses exceed actual expenses (underspending) and

0 otherwise. Lee and Plummer (2007) found that the budget control mechanism provided by the district government affects the magnitude of budget ratcheting.

3. Data Analysis

In this study using the t test, F test and determination test to see the effect between the status quo variables, diversification and financial performance.

3.1 test

In this study using the t test, F test and determination test to see the effect between the variables of Regional Original Income, Balancing Funds, Regional Expenditures and Budget Ratcheting:

Table 3.1
Statistical Test Results t Regional Original Revenue, Budget Ratcheting, and Regional Original Revenue x Budget Ratcheting to Regional Expenditure

Coefficients^a

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	6.339	1.838		3.449	.001
X1	.617	.057	.790	10.893	.000
X2	-.277	.530	-.038	-.522	.603
X1*Z	-.009	.024	-.028	-.379	.706

a. Dependent Variable: Y

From the results of data processing using SPSS, the calculation can be seen from : Df = 104 - 3 = 101 by using a significance level of 0.05%, the table obtained is 1.660. Based on the results of the regression for profitability, Regional Original Income obtained t-value > t-table that is 10,893 > 1,660. Based on the table above, the Regional Original Income variable has a significant influence on Regional Expenditures, because the significance value (Sig.) is 0.000 <0.005 (alpha).

Meanwhile, the variables of Budget Ratcheting and Regional Original Revenue x budget ratcheting obtained t-value< t-table, which are -0.522 and -0.379 <1.661. The significance value (Sig.) of budget ratcheting and local revenue x budget ratcheting is 0.603 and 0.706 > 0.05 (alpha). This shows that the variables of Budget Ratcheting and Regional Original Revenue x Budget Ratcheting do not have a significant effect on Regional Expenditures.

Table 3.2
Result of Statistical Test t Balancing Fund to Regional Expenditure

Coefficients^a

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	2.023	.609		3.323	.001
X2	.845	.050	.857	16.793	.000

a. Dependent Variable: Y

From the results of the data processing, the calculation can be seen from: Df = 104 - 2 = 102 by using a significance level of 0.05%, the t table obtained is 1.659. Based on the results of the regression for profitability, PAD obtained t-value > t-table that is 16,793 > 1,659. The significance value (sig.) 0.000 < 0.005, it can be concluded that the hypothesis is accepted, which means that the Balancing Fund has a significant influence on Regional Expenditures.

3.2 F test

Testing the F test hypothesis is used to see whether the independent variable of Regional Original Income has a meaningful influence on the dependent variable of Regional Expenditure with Budget Ratcheting as a moderating variable. In addition, the t test is also used to determine the effect of the independent variable on the dependent variable and the t test is used to see the partial effect. From the results of the simultaneous test, the following results are obtained.

Table 3.3

F Test Results of Regional Original Revenue, Budget Ratcheting, and Regional Original Revenue x Budget Ratcheting of Regional Expenditure

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.015	3	.338	37.052	.000[b]
Residual	.913	100	.009		
Total	1.928	103			

a. Dependent Variable: Y

b. Predictors: (Constant), X1*Z, X1, Z

From the results of the table above, it can be seen that F-value 37,052 with a probability of 0.00. It is known that F-table is 3.09 < F-valueand the probability number is less than 0.005. Thus, it can be concluded that the model used to test Regional Original Income is a fit model. The regression equation can be stated as significant, which means that local revenue and budget ratcheting have a significant effect on regional spending.

Table 3.4

F Test Results of Balancing Funds on Regional Expenditures

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.416	1	1.416	281.989	.000[b]
Residual	.512	102	.005		
Total	1.928	103			

a. Dependent Variable: Y

b. Predictors: (Constant), X2

From the results of the table above, it is known that F-value is 281,989 with a probability of 0.00. It is known that F-table is 3.08 < F-value and the probability number is less than 0.005. Thus, it can be concluded that the model used to test the Balancing Fund is a fit model. From the regression equation it can be stated that the Balancing Fund has a significant effect on Regional Expenditures.

3.3   Determinant Test

The coefficient of determination can be used to determine how closely the relationship between the independent variable and the dependent variable is. The magnitude of the coefficient of determination is indicated by the value of Adjusted R. Square which is located between 0 to 1. From the results of data analysis using SPSS software, the following results are obtained:

Tabel3.5

Results of the Determination of Regional Original Income on Regional Expenditures

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725[a]	.526	.521	.09465

a. Predictors: (Constant), X1

The results of calculations using SPSS can be seen that the Adjusted R Square in the table obtained results of 0.521 or 52.1%. This shows the ability of the independent variable to run the variance of the dependent variable, which is 0.521

or 52.1%, which has an effect on Regional Expenditures, while the remaining 47.9% is explained by other variables or factors.

Table 3.6

Result of Determination of Balancing Fund on Regional Expenditure

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857a	.734	.732	.07085

a. Predictors: (Constant), X2

The results of calculations using SPSS can be seen that the Adjusted R Square in the table obtained results of 0.732 or 73.2%. This shows the ability of the independent variable to run the variance of the dependent variable, which is 0.732 or 73.2%, which has an effect on Regional Expenditures, while the remaining 26.8% is explained by other variables or factors.

Table 3.7

Results of Determination Test of Regional Original Income, Budget Ratcheting, and Regional Original Income x Budget Ratcheting of Regional Expenditures

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.726a	.526	.512	.09554

a. Predictors: (Constant), X1*Z, X1, Z

Meanwhile, after adding the moderating variable, namely budget ratcheting, the value of Adjusted R Square decreased to 0.512 or 51.2%. From these results, it is known that 51.2% of Regional Expenditures can be explained by Regional Original Income and budget ratcheting as moderating variables which weakens in moderating Regional Original Income to Regional Expenditures.

IV. DISCUSSION

The results of this study show the t-value of 10,893 > 1,660 and Sig. 0.001 < 0.005, thus giving the result that Regional Original Income has an effect on Regional Expenditures and this supports the formulated hypothesis. Where this also shows a positive relationship, when Regional Original Income increases, it will also have an impact on increasing Regional Expenditures, so H_1 in this study is accepted.

The results of this study indicate the t-value is 16,793 > 1,659 and Sig. 0.001 < 0.005, thus giving the result that the Balancing Fund has an effect on Regional Expenditures and this supports the formulated hypothesis. Where this also shows a positive relationship, when the Balancing Fund increases, it will also have an increase in Regional Expenditures, so H_2 in this study is accepted.

Budget Bias in Regional Original Revenue Budgeting. The results of the growth regression test show that the value of the ratcheting coefficient in Regional Expenditures is 0.001. This proves that there is a ratcheting effect in the Regional Original Revenue Budgeting, so H_3 in this study is accepted.

Budget Ratcheting in the Balancing Fund Budget The results of the growth regression test show that the value of the ratcheting coefficient in Regional Expenditures is (-0.550). This proves that there is a ratcheting effect in the Balancing Fund Budget, so H_4 in this study is accepted.

Budget increase is a moderating variable that weakens the relationship between Regional Original Income and Regional Expenditures. The results showed that the Adjusted R Square was 0.521 or 52.1% in the first regression and the Adjusted R Square decreased after the second regression (MRA) to 0.512 or 51.2%. So that there is an effect of Budget Ratcheting in influencing Regional Original Income with Regional Expenditures and Budget Ratcheting weakens the relationship between Regional Original Income and Regional Expenditures, so H_5 in this study is accepted.

V. CONCLUSION

Based on the analysis conducted on the results of growth regression and multiple linear regression on the Realization Report of Regency and City Regional Revenue and Expenditure Budgets in the Province of Central Java in 2016-2018, it can be concluded that from the growth regression results state that Budget Ratcheting occurs in the budgeting of Regional Original Revenue, Effects Budget Ratcheting also occurs in the Balancing Fund. This study also concludes that the influence of Regional Original Income on Regional Expenditures accompanied by an increase in Regional Original Income also has an impact on increasing Regional Expenditures.

This study also finds that there is an effect of Budget Ratcheting in influencing the relationship between Regional Original Income and Regional Expenditures and it can be stated that the Budget Ratcheting Effect weakens the relationship of Regional Original Income with Regional Expenditures. Thus it can be concluded that the five hypotheses in this studyaccepted.

The suggestions given by researchers are:

1. Increase the scope of the sample that will be carried out in further research, such as the Regional Government SKPD.
2. Be able to explain in detail the impact of the Budget Ratcheting effect in Local Government Budgeting.

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