

Budget Ratcheting on Sidoarjo Regency Government Budget Realization (Empirical Study on Sidoarjo Regency Government)

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ABSTRACT

Objective: This study investigates the impact of local revenue on regional spending in the aftermath of the COVID-19 pandemic, with budget ratcheting analyzed as a moderating variable. **Method:** A quantitative approach utilizing secondary data was employed. The study population included all government organizations, with a sample size of 48. Data analysis involved classical assumption testing, simple linear regression, and moderated regression analysis (MRA). **Results:** The findings reveal that local revenue positively influences regional spending, indicating that higher local revenues lead to increased regional expenditures. However, budget ratcheting does not moderate the relationship between local revenue and regional spending. **Novelty:** This study highlights the critical role of local revenue in shaping regional spending post-pandemic and emphasizes the limited influence of budget ratcheting as a moderating factor. It further underscores the necessity for regional governments to bolster local economies by fostering community small business activities and exploring potential sources of local revenue to ensure sustainable financial planning and development.

INTRODUCTION

Fiscal decentralization in Indonesia officially began on 1 January 2001. Since then, local governments have gained authority in almost all sectors, except in the areas of defense and security, justice, foreign policy, monetary and religion. In the implementation of this decentralization, the central government provided funding sources to the regions as a form of delegation of authority. This implementation is followed by the implementation of regional autonomy which has the aim of giving responsibility to local governments in managing, developing and optimally utilizing the potential resources owned for the benefit and prosperity of the people of their respective areas [1].

Local governments have the authority to design, manage and distribute local budgets according to the needs of the community. The Regional Budget (APBD) is an annual financial planning document prepared by the local government as a guideline for managing revenue and expenditure in one fiscal year. This document must be approved through regional regulations and becomes the basis for regional financial management to support the implementation of programs and services to the community in the region. The APBD consists of three main components of regional revenue which includes local original revenue, transfer revenue and other legitimate income. Second, regional expenditure includes operational expenditure, capital expenditure and transfer expenditure. The third is regional financing which includes financing receipts and financing expenditures. In a democratic government, the budget reflects the

government's plan to manage and spend public funds so that its implementation must be carried out in a transparent and accountable manner.

The government's budgetary planning is closely linked to political aspects, so it must ensure that budgetary management provides social benefits to the community.[3] . Although budgeting is strictly regulated by legislation, the practice of implementation is often colored by the dominance of the interests of political elites. This creates a vulnerability to the phenomenon of budget ratcheting, which is a gradual increase in the budget due to a tug of war between the executive, which is responsible for budget formulation, and the legislature, which has the authority to form policy. This can lead to deviations from the main purpose of the budget for the public interest.

The executive and legislative together to agree on the direction, objectives, and general policies as guidelines in the preparation of local revenue and expenditure budgets that can determine budgeting priorities. Local governments have the responsibility to submit draft local budgets to the local legislative council (DPRD) for review, discussion and agreement. Once the process is complete, the document can be enacted as a legal local regulation. In the relationship between the executive and the legislature there is an agency relationship so that both parties have a role that influences each other in budget management [4]. Executives as budget preparers and legislatures as policy makers have the opportunity to engage in the phenomenon of budget ratcheting, namely the tendency to increase the budget through a compromise of interests between them. Both the executive and the legislature have the opportunity to engage in budget ratcheting. The executive, as the party that prepares the budget, has the advantage of information that can be used for personal interests so that it can maximize utility or information related to the budget. Meanwhile, the legislature has the potential for ratcheting during the process of decision making or policy setting in the budget approval. During the budget approval process, negotiations between the executive and the legislature often occur. In addition, the legislature often proposes "entrusted" development projects that focus on electoral districts under the pretext of meeting the needs of constituents, which can lead to development inequality between regions. Therefore, local governments as executives and local legislatures as legislatures need to strengthen their performance accountability in carrying out their respective duties so that they are committed to improving transparency and actively supervise and ensure that local financial management runs in accordance with good governance principles and applicable laws and regulations.

Financial performance in the agency perspective is used as the main reference to assess the success of budget management and determine the amount of performance allowances for the parties involved [5]. This approach aims to create incentives that are aligned with organizational goals and prevent imbalances in budget allocations. Thus, objective and results-based performance measurement can encourage more efficient, transparent and accountable financial management that improves the quality of public services at the local level. Governments tend to set local revenue targets that are lower than the real potential, so that during a recession, the government can increase revenues

difficult to reduce expenditure budgets that have increased along with the increase in revenue.

In 2019 the covid-19 pandemic began to spread globally and reached Indonesia in March 2020. This outbreak caused significant changes to the economy not only in Indonesia but throughout the world. As a result. PAD in various districts and cities in Indonesia has decreased. According to the Central Bureau of Statistics, Indonesia's economic growth experienced a contraction of -2.07% in 2020, resulting in deflation due to economic inconsistencies. Government consumption also decreased from 3.25% to 1.94% [6]. The sidoarjo district government also felt the impact with PAD decreasing during the pandemic. PAD initially reached Rp. 1.468 trillion in 2020[7]. This decline forced the government to revise the current year's PAD target to be lower than the previous year, in an effort to maintain stable financial performance [8]. However, in line with Government Regulation (PP) No. 43 of 2020 on the implementation of the national economic recovery program, the sidoarjo district government is optimistic about increasing the PAD target in the following year, namely IDR 1.6 trillion in 2021 and IDR 1.8 trillion in 2022 [9].

Local own-source revenue (PAD) aims to create incentives that are aligned with organizational goals and prevent imbalances in budget allocations. Thus, objective and results-based performance measurement can encourage more efficient, transparent and accountable financial management while improving the quality of public services at the local level [10]. Optimization of local revenue can be achieved through various strategic efforts. One important step is to provide education, socialization and motivation to the public about the importance of fulfilling the obligation to pay local taxes as a contribution to development. In addition, improving the performance and professionalism of civil apparatus in the tax collection process is a crucial factor to ensure that tax management runs effectively and transparently. On the other hand, the utilization of information technology such as online tax payment systems is very important to improve the efficiency and quality of services to the community, so that PAD can be managed more optimally which can support fiscal independence and sustainable regional development [11]. PAD is used to finance regional expenditure, which will have a positive impact if it is fully allocated for the benefit of the community, including regional development [12]. The increase in PAD will be directly proportional to the increase in regional expenditure, because the increase in revenue is usually followed by an increase in development activities. This opinion is in line with [13] which states that the higher the PAD obtained by a region, the greater the expenditure that can be financed. In addition, research from,[5][15] and [16] shows that PAD has a positive effect on regional spending.

Racheting is one of the phenomena that often occurs in the budgeting process, where the determination of the budget target in the current year is directly influenced by the difference between the budget target and the realization that occurred in the previous year [17]. This phenomenon creates a tendency to increase budget targets gradually, regardless of actual needs or budget management efficiency, which can result in the budgeting process being less flexible because it is based on historical patterns that do not

always reflect current conditions and priorities. Budget ratcheting can be defined as the process of setting budget targets based on budget performance achievements in the previous year with the aim of achieving higher or more favorable targets in the following fiscal year [18]. This practice is often carried out by governments by modifying performance targets. Research shows that this phenomenon has a significant impact on local financial management with every 1% increase in local revenue can trigger an increase in local expenditure of up to 87.2% [15]. This illustrates that the relationship between local revenue and expenditure is highly elastic which can affect the efficiency of budget utilization as well as overall fiscal planning. From this it appears that budget ratcheting plays a role in strengthening the relationship between PAD and local expenditure. Research in the Cirebon district/city supports these findings, with the result that total local expenditure is significantly influenced by PAD, with each 1% increase in PAD increasing local expenditure by 34.1% [12]. This suggests that budget ratcheting serves as a moderator that strengthens the relationship between PAD and regional expenditure. This research supports that budget ratcheting strengthens the relationship between PAD and local expenditure, as shown by a study of 50 cities in the United States [19]. However, different results were found in other studies, such as those conducted by [21],[17],[18],[22], and [23].

This study aims to examine whether the increase in the amount of local revenue (PAD) that occurred after the COVID-19 pandemic was directly proportional to the increase in local spending on the Sidoarjo Regency Government. In addition this study also seeks to analyze the role of budget ratcheting as a moderating variable that can strengthen the relationship between PAD and local spending by the Sidoarjo District Government. The results of this study are expected to provide insight into post-pandemic local financial management patterns and the potential impact of budget ratcheting on budget decision making.

RESEARCH METHOD

This study uses a quantitative approach by utilizing secondary data in the form of Sidoarjo Regency government budget realization reports for the 2020 and 2021 periods. The data used in this study were obtained from official sources, namely the Regional Financial and Asset Management Agency (BPKAD) through the official website of the Sidoarjo Regency Government. This approach aims to objectively analyze the relationship between local revenue and local expenditure and the role of budget ratcheting as a moderating variable using valid and verified financial data.

The population in this study included all regional apparatus in Sidoarjo district, totaling 48 SKPDs. Of these, there are 33 SKPDs that have their own sources of income in the Sidoarjo district area. The sampling technique used is purposive sampling with the following criteria:

- a. Data completeness.
- b. Has a complete PAD component and regional expenditure component.
- c. Post-covid-19 Regional Budget data, namely 2020 and 2021.

This research is included in the type of primary data quantitative research. The data collection method is done through questionnaires distributed directly to respondents [24]. This approach allows researchers to interact directly with respondents to obtain the information needed. The research location includes all village governments in the wonoayu sub-district, sidoarjo district, east Java. The sample in this study was selected using purposive sampling method, which is a sample selection technique based on specific objectives or criteria. The criteria applied in the sample selection process for this study were specifically designed to ensure the relevance and quality of the data used as follows:

1. Village Head
2. Village Secretary
3. Village Treasurer
4. Head of affairs in the Village Government
5. BPD

Table 1. Variable Indicators.

No.	Variables	Indicator	Scale	Reference Source
1	Local Revenue (Variable X)	<ol style="list-style-type: none"> 1. Local Tax 2. Regional Retribution 3. Results of Management of Separated Regional Wealth 4. Other valid PAD 	Nominal	[25]
2	Regional Expenditure (Variable Y)	<ol style="list-style-type: none"> 1. Operational expenditure 2. Capital expenditure 3. Unexpected expenditure 4. expenditure 	Nominal	[26]

3	<i>Budget Ratcheting</i> (Variable Z)	1.	= PAD _t Local own-source revenue for the year	Model Formula: PAD _t - PAD _{t-1} = $\sigma + \gamma$ (PAD _{Rt-1} - PAD _{t-1}) + ϵ	[12] and [27]
		2.	PAD _{t-1} = Local Original Revenue of the previous year		
		3.	PAD _{Rt-1} = Realization of local revenue in the current year		
		4.	σ = constant		
		5.	γ = regression coefficient		
		6.	ϵ = standard error		

Before testing the hypothesis, researchers will first check the validity and reliability of the research instruments. Furthermore, simple linear regression analysis will be used to test the hypothesis regarding the effect of local own-source revenue (PAD) on local expenditure. Meanwhile, to evaluate whether budget ratcheting acts as a moderator in the relationship between own-source revenue and local expenditure, the research uses the moderated regression analysis (MRA) method. [28] This method is an application of simple linear regression that includes an interaction element, which is the multiplication of two or more variables in the regression equation.

RESULTS AND DISCUSSION

Results

Normality Test

Table 2. Normality Test Results.

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		63
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.85790680
	Absolute	.113
Most Differences	ExtremePositive	.096
	Negative	-.113
Test Statistic		.113
Asymp. Sig. (2-tailed)		.045 ^c

Monte Carlo Sig. (2-tailed)	Sig. 99%	(2- Sig. Confidence Interval)	.374 ^d
		Lower Bound	.362
		Upper Bound	.387

- Test distribution is Normal.
- Calculated from data.
- Lilliefors Significance Correction.
- Based on 10000 sampled tables with starting seed 299883525.

The normality test results show that the significance value of the Kolmogorov-Smirnov test is 0.374. Because the significance value is greater than 0.05, it can be concluded that the regression residuals have normal data distribution.

Multicollinearity Test

Table 3. Multicollinearity Test Results.

Model		Collinearity Statistics	
		Tolerance	VIF
1	PAD	.967	1.034
	Budget_Ratcheting	.358	2.793
	PAD_BudgetRat	.365	2.738

Dependent variable: Regional expenditure

The multicollinearity test results show that the VIF value for the PAD variable is 1.304, the Budget Ratching variable is 2.793 and the PAD_Budget Ratching interaction variable is 2.738. All VIF values are below 10.00 and the tolerance value for all variables exceeds 0.1. Thus, it can be concluded that the regression model has met the assumption of free multicollinearity.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test.

Coefficients ^a		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta	
1	(Constant)	.655	.071	9.16	.000
	<i>Budget_Ratcheting</i>	-1.500E-12	.000	-.095	.656
	PAD_BudgetRat	-1.510E-25	.000	-.014	.947
	PAD	8.887E-14	.000	.084	.520

a. Dependent Variable: abs

The Glejser test results show that the Budget Ratcheting variable has a significance value of 0.656, the PAD Budget Ratcheting variable is 0.947 and the PAD variable is 0.520. Because all variables in the regression model have a Glejser test significance value of more than 0.05, it can be concluded that the regression model does not experience heteroscedasticity problems.

Autocorrelation Test

Table 5. Autocorrelation Test.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin - Watson
1	.843 ^a	.711	.696	.87945	2.115

a. Predictors: (Constant), *PAD_BudgetRat*, *PAD_Budget_Ratcheting*

b. Dependent Variable: Regional Expenditure

The analysis results show that the durbin watson value in the regression model is 2.115. Because this value exceeds 2.000, it can be concluded that the regression model is free from autocorrelation. Based on the overall classical assumption test, all classical assumptions have been met so that this regression model is declared feasible to use in analyzing the effect of PAD Budget Ratcheting, PAD on regional spending.

Simple Linear Regression Test

Table 6. Simple Linear Regression Test.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	17.424	.566		30.795	.000
	PAD	.327	.029	.806	11.319	.000

a. Dependent Variable: Regional Expenditure

Based on the results of data processing according to table 6, it can be explained by the regression equation as follows:

$$Y = a + bX + e$$

$$Y = 17.424 + 0.327X + e$$

Where:

Y = Regional expenditure

b = constant

X = Local Revenue

e = standard error

Hypothesis Test

Partial Test (t Test)

Table 7. Partial Test Results (t test).

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	17.424	.566		30.795	.000
PAD	.327	.029	.806	11.319	.000
<i>Budget_Ratcheting</i>	-1.108E-11	.000	-.238	-2.035	.056
<i>PAD_BudgetRat</i>	-5.513E-24	.000	-.174	-1.501	.139

a. Dependent Variable: Regional Expenditure

Based on the results of the regression analysis presented in the table above, information is obtained that the significance value of the effect of Regional Original Revenue (PAD) on regional expenditure is 0.000. Because the significance value is smaller than the critical limit of 0.05 and supported by a positive regression coefficient of 0.327, it can be concluded that PAD has a positive and significant influence on regional expenditure. This means that any increase in PAD will be followed by an increase in regional expenditure with a statistically significant relationship. This shows that the higher the PAD obtained, the higher the regional expenditure, thus **H1 is accepted**. The significance value of the effect of budget ratcheting on regional expenditure is 0.056. Because the significance value > 0.05 and the negative regression coefficient of -1.108E-11, it can be concluded that budget ratcheting has a negative effect on regional spending. This means that the higher the level of budget ratcheting, the lower the regional expenditure. The moderating effect of budget ratcheting on the relationship between PAD and regional expenditure has a significance value of 0.139. Because this value > 0.05 and a negative regression coefficient of -5.513E-24, it can be concluded that budget ratcheting does not moderate the effect of PAD on regional spending, thus **H2 does not moderate**.

Coefficient of determination (R Square)

Table 8. Coefficient of Determination.

Model Summary ^b					
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate Durbin-Watson
1	.843 ^a	.711	.696		.87945 1.616

a. Predictors: (Constant), *PAD_BudgetRatcheting*, *PAD*, *Budget_Ratcheting*

b. Dependent Variable: Regional Expenditure

The regression analysis results show that the adjusted R square value in the regression model is 0.696. This means that PAD and budget ratcheting simultaneously have an influence of 69.6% on regional spending while the remaining 30.4% is influenced by other factors outside the two variables.

MRA Equation

Based on these values, the regression equation that can be used to predict regional spending based on these three variables is as follows:

$$Y = a + bX_1 + bX_2 + bX_3 + e$$

$$Y = 17.424 + 0.327 X_1 + -1.108E-11 X_2 + -5.513E-24 X_3 + e$$

By:

Y = Regional expenditure

a = Constant

X₁ = Regional Original Revenue (PAD)

X₂ = *Budget Ratcheting*

X₃ = *PAD_BudgetRatcheting*

e = Standard

Discussion

Regional Original Revenue affects Regional Expenditure

The results showed that the significance value for the regional own-source revenue variable was 0.000 which was below the significance threshold of 0.05. This indicates that the first hypothesis (H1) is accepted, namely PAD has a positive influence on regional spending. The higher the level of PAD, the greater the regional expenditure generated. In addition, the PAD regression coefficient value of 0.327 reveals that every 1% increase in PAD will cause an increase in regional expenditure of 0.327% assuming other variables remain constant. These findings indicate a close relationship between increasing local revenue and expenditure allocation policies so that optimal PAD management can contribute significantly to increasing government spending on development and community services. [15][5][13][12] This finding is consistent with the results of previous research conducted by, and which also concluded that PAD has a positive effect on regional expenditure. This research confirms that an increase in PAD is always followed by an increase in the allocation of regional expenditure.

Budget Ratcheting Moderates the Relationship between Local Revenue and Local Expenditure

Based on the regression equation, the budget ratcheting coefficient of -1.108E-11 indicates that any increase in budget ratcheting by 1% will cause a decrease in regional expenditure allocations by 1.108E-11. Testing the second hypothesis (H2) produces an interaction coefficient value between local own-source revenue (PAD) and budget ratcheting of -5.513E-24 with a significance level of 0.3139 which is greater than $\alpha = 0.05$. This indicates that budget ratcheting does not moderate the relationship between PAD and regional expenditure. The resulting moderation effect is negative, which means that the higher the moderation of budget ratcheting, the weaker the influence of PAD on

regional expenditure. [17] This finding is in line with research which reveals that an increase in PAD is not accompanied by an increase in capital expenditure, so budget ratcheting does not moderate the relationship between PAD and regional expenditure.

In this study it was found that although local own-source revenue (PAD) has a positive influence on local expenditure the budget ratcheting effect does not moderate the relationship between PAD and local expenditure. This is due to a decrease in the significance of PAD during the Covid-19 pandemic compared to the years before the pandemic. This condition affects the relationship between PAD and regional expenditure. The decline in PAD was caused by the global economic slowdown due to the implementation of restrictions on community activities (PPKM). Meanwhile, regional expenditure is mostly allocated to fund efforts to mitigate and control the spread of covid-19.

CONCLUSION

Fundamental Finding : Local own-source revenue (PAD) has a positive influence on regional expenditure, which means that an increase in PAD will be followed by an increase in regional expenditure. Budget ratcheting, as a moderating variable, has a role to strengthen or weaken the relationship between PAD and regional expenditure. However, the results showed that budget ratcheting did not moderate or weaken the relationship. This condition is caused by a significant decrease in PAD due to the impact of the covid-19 pandemic. **Implication :** For the Sidoarjo district government, it is recommended to increase PAD by empowering MSMEs in the Sidoarjo area and optimizing resources that can generate PAD. This step is expected to accelerate regional development and improve the economic welfare of the Sidoarjo community. **Limitation :** This study has limitations including the use of secondary data in the form of budget realization reports which only cover two periods, namely 2020 and 2021 because the focus of the research is on the post-covid-19 pandemic period. In addition, this study only uses PAD and budget ratcheting variables, while there are many other variables such as economic growth and performance effectiveness that may have a greater influence on regional spending. **Future Research :** Suggestions for future research are to use secondary data from several fiscal year periods to provide more comprehensive results. In addition, it is recommended to add other independent variables that have not been discussed in this study and consider additional moderation variables.

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