

Ratcheting Effects on Regional Government Revenue and Expenditure Budgets in Indonesia

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Abstract

This study was conducted to determine the existence of a ratchet effect in the regional revenue and expenditure budget. This research is quantitative descriptive research. The population used in this study were 34 provincial governments in Indonesia. The data used in this study are regional revenue and expenditure budgets data in 2019-2021 from the Ministry of Finance. A simple linear regression model is used to test the research hypothesis. The results of the study found that there was a ratcheting effect in the regional government revenue and expenditure budgets of provincial governments in Indonesia. The results of this study indicate that there is a ratchet effect in the preparation of regional revenue and expenditure budgets. The existence of a ratchet effect in regional revenue and expenditure budgeting implies that the model for setting regional revenue and expenditure budget targets provides incentives for budget actors to behave opportunistically.

Keywords: budget ratcheting;
regional revenue; expenditure

Introduction

Regional budgets are documents prepared by the government that are used as a form of accountability and organizational governance. The information contained in the budget can be used as a basis for measuring financial performance and preparing financial plans for the coming year. In line with the reform of state financial management in the form of performance-based budget implementation, it is closely related to the important role of measuring budget performance in the government budgeting cycle (Susanto, 2018), as stated in Government Regulation No. 8/2006, budget performance measurement is useful for evaluating program effectiveness. The government towards the program output targets, evaluates budget performance (value for money) as a form of accountability for the budget managed by the government, and makes decisions regarding the next year's budget allocation for each part of the government organization. In relation to the preparation of the next year's budget, Susanto (2018) explains that the budget variance is important information in the preparation of the government budget because the government budget variance provides information about the performance capacity and achievement of performance targets as well as the suitability of budget allocations with program output targets set by the government.

In determining the amount of budget allocation for the next period, it can usually be done by looking at the performance of the budget as the basis for evaluating management performance. However, the use of these budget variants in budgeting can contain aspects of incrementalism in the form of a ratchet effect that arises as a result of the bias of budget makers' behavior such as budget planners determining budget targets based on budget performance achievements in the previous period (Susanto, 2018; Anjeli & Mulyani, 2020). Incrementalism has a negative association if the previous period's budget contains a bias due to the opportunistic behavior of the budget makers which causes the budget to become

rigid and results in inefficient budget growth (Susanto, 2018). Budgeting behavior that follows the pattern or amount of the previous year's budget is called budget ratcheting (Lee and Plummer, 2007). Budget ratcheting shows that an increase in the next period's revenue budget tends to be more responsive to the current period's revenue budget variance compared to a decrease in revenue in the next period which has a negative effect on changes in the current period's budget (Abdullah & Nazry, 2015). The ratchet effect in the budget can be seen from the increase in the budget for the next period in response to the positive variance of the previous year's budget, and conversely the decrease in the budget for the next period in response to the negative variance of the previous period's budget (Susanto, 2018).

The case of budget increases and changes also occurred in Regional Governments in Indonesia from 2017 to 2021. These budget increases and changes can be seen in the Regional Revenue and Expenditure Budget (APBD) reports published by Ministry of Finance. The published report explains that the revenue budget for Regional Governments in Indonesia nationally in 2017 increased by around 43,742.22 billion or around 4.16% of which the total regional income was 1,051,337.18 billion and increased in 2018 to 1,095,079, 40 billion. Furthermore, in 2019 there was an increase to 1,192,632, 60 billion. Likewise, in 2020, there was an increase from the previous year to 1,239,751.05 billion and in 2021 there was an increase in the amount of regional income. to 1,155,600.89 billion.

Regional expenditure in 2017 increased by 55,299.37 billion or around 5.03%, namely in 2017 it was 1,098,661.95 billion, it increased to 1,153,961.32 billion in 2018. Furthermore, in 2019 it also increased to 1,242,149.61 billion. Likewise, in 2020 there was an increase from the previous year to 1,300,354.25 billion, but in 2021 there was a decrease in the number of regional expenditures to 1,230,108.25 billion. Therefore, this increase in regional expenditures can be concluded that area has negative variance. This situation indicates that the achievement of realization requires an increase in the implementation and planning of the budget that has been planned. Therefore, based on the case of these changes and increases, we need to see if there is a ratcheting effect on regional revenue on regional expenditures.

Table 1
Regional Revenue and Expenditure Budget in 2017-2021

	2017	2018	2019	2020	2021
Regional Revenue	1.051.337,18 B	1.095.079,40 B	1.192.632,60 B	1.239.751,05 B	1.155.600,89 B
Expenditure	1.098.661,95 B	1.153.961,32 B	1.242.149,61 B	1.300.354,25 B	1.230.108,25 B

Source: <https://djpk.kemenkeu.go.id/portal/data>

In the preparation of the Regional Revenue and Expenditure Budget (APBD) for regional governments in Indonesia, it begins with the preparation of the Regional Government Work Plan (RKPD). The Regional Head and the Regional Representative Council (DPRD) work together to form a participatory relationship for the preparation of the APBD so that there is an agency relationship that collaborates with each other to produce a well-targeted APBD (Anjeli & Mulyani, 2020). The context of this relationship shows that the Regional Government (executive) acts as an agent and the DPRD (legislative) acts as the principal as a direct representative of the community in the region. However, in practice, there are often cases of fraud or budget misappropriation. The scope of this research is different from previous research, in this research it focuses on how local governments can prepare regional revenue and expenditure budgets, whether budgeting is based on regional priority needs or personal needs of budget actors. This is important to do to see if there is any fraud or moral hazard committed by the local government in the process of determining the next year's budget.

Opportunistic behavior in the budgeting process is also often encountered (Abdullah, 2012). Problems also arise in the adjustment of budget targets that are not always in harmony with the concept that should be due to the emergence of agency problems on the part of budget policy makers carried out by the Regional Government and DPRD (Halim &

Abdullah, 2006). Lim's research (2011) shows the emergence of problems in setting budget targets among local governments which results in budget ratcheting. The ratchet effect in economic insight is a behavioral bias in the budgeting process caused by the use of the previous year's performance information as the basis for determining performance targets for the coming year through a negotiation process in the form of an agency relationship (Indjejikian & Nanda, 1998, in Susanto 2018). Thus, the effect of ratcheting on the budgeting process of government organizations is an explanation for budget growth which is based on opportunistic behavior from both agents and principals. This is certainly not in line with the principle of performance-based regional finance which has been regulated in accordance with applicable laws in Indonesia.

Research on the effect of ratchet on the budgeting of public sector organizations has been carried out in various contexts, including: Lee & Plummer (2007) on school budgets in Texas; Marlowe (2009) in the context of city government in the state of Minnesota; Abdullah & Juanita (2016) in district/city governments in Aceh; Susanto & Halim (2018) on local governments in specific budget components; Andrean & Sari (2020) in district/city governments in West Sumatra, and Arsani & Sihombing (2020) who found an asymmetric ratchet in local government budgeting. This research is a development of previous research in the context of local government by developing tests on a wider scope of local government, namely all provincial governments in Indonesia to explain the phenomenon of the ratchet effect on local government budgeting in Indonesia, not only in the revenue component, but also in the expenditure component. In addition, this research was also motivated by the phenomenon of the COVID-19 pandemic. There are big challenges in the budgeting process during the pandemic, because the economic impact will affect social welfare. The budget reallocation generated by the incremental pathway system must be implemented to minimize the risk of a pandemic on social welfare, for that the government must adjust performance targets and restructure programs by reallocating the budget (Arsani & Sihombing, 2020). Budget ratcheting and budget reallocation during a pandemic situation are indirectly correlated, i.e. in some cases, ratcheting shows budget inefficiency, budget increases are only determined by the previous budget, not based on the program to be carried out, so that the budget can be allocated to deal with critical situations such as the COVID pandemic-19. Based on the background of the problem, the purpose of this study is to examine the effect of ratcheting in budgeting local revenues and expenditures in Provincial Governments in Indonesia from 2020 to 2021.

Scott (2000) explains that agency theory is the right contract design to align the interests of the principal and agent in the event of a conflict of interest. The implication of the delegation of work between one party to another creates a contractual relationship between the two parties. Within the scope of public sector accounting, Christensen (1992) states that the principal-agent theory can be an analytical tool for the preparation and implementation of public budgets. The budget is a financial plan that forms the basis for the implementation of public services. The budgeting process involves two parties, namely the executive and the legislative, each through a team or budget committee. Prior to the preparation of the budget, an agreement is made between the executive and the legislative on general policies (AKU) and budget priorities, which will serve as guidelines for the preparation of the revenue and expenditure budgets. The executive arrange a budget in accordance with AKU and budget priorities, which are then submitted to the legislative to be studied and discussed together before being enacted as a regional regulation (Perda). This process indicates the involvement of the executive (agent) and the legislative (principal) in the form of a contract which becomes a tool for the legislative to oversee the execution of the budget by the executive (Halim & Abdullah, 2010).

Smith & Bertozzi (1998) explain that agency theory contributes greatly to the development of a more inclusive and accurate model of most stages of public budgeting. The application of the principal-agent model provides a more powerful analytical tool in preparing and implementing public budgets. The agency relationship due to the delegation of authority from the principal to the agent can trigger agency problems in public sector organizations. This conflict can occur because humans are economic creatures who have a self-interested

nature. In the context of budgeting, the budgeting process is prone to problems. One of them is when in the preparation of the budget there is a tendency for compilers to make decisions using current performance as a criterion in determining future targets, which is called a ratchet (Weitzman, 1980 in Andrean & Sari, 2020). The ratchet will show that agency theory occurs in its implementation, agency theory explains the occurrence of an agreement between two parties, namely the party who gives the authority is called the principal and the party who receives the authority is called the agent (Halim and Abdullah, 2006). Agency problems occur when the principal delegates decision-making authority to the agent. This relationship will cause problems, namely the existence of information asymmetry, where the government as the principal has more information than the agent (society). The superiority of this information stems from the fact that the executive is the executor of all local government functions, so that the budget for the implementation of public services has a tendency to propose a larger budget (maximum principle), and for the executive income budget tends to propose a smaller revenue target (minimum principle), to make it easier to achieve the targets (Halim and Abdullah, 2006). Budget ratcheting will be seen when the executive action prepares the budget, the basis for decisions taken using current information as a criterion in achieving the next year's budget targets. Halim & Abdullah (2006 in Andrean & Sari, 2020) said in their research that budget proposals containing slack like this are an illustration of the information asymmetry between the executive and the legislature.

The Regional Revenue and Expenditure Budget/APBD is the annual financial plan of the regional government which is discussed and jointly approved by the regional government and DPRD, and is stipulated by regional regulations (Halim and Susanto, 2018). In the current era of regional autonomy, the budget is the core of regional financial management that is managed independently, so that planning, implementation, administration, accountability, and supervision activities are all focused on the budget (Abdullah & Nazry, 2015). As a consequence of this concept, regional independence is very much needed to meet expenditure needs whose funding can be obtained through income sourced from the potential of the region owned. This shows that the determination of expenditure allocation is influenced by the amount of income earned (Eita & Mbazima, 2008). As in the scope of regional government, the size of the budget from revenues in a region can cause the local government to regulate the budget in such a way by using the excess of the previous year's budget to cover the current year's budget deficit and can even regulate government spending in the coming year (Apriliantini & Aryani, 2014).

One form of self-interest in the agency perspective is to take advantage of the superiority of information possessed by a superior to achieve targets more easily (Bevan and Hood, 2006; Brownell & McInnes, 1986 in Abdullah & Junita, 2016). One of the information that is often used in determining targets for the following year is information on targets and performance achievements of the previous year. The use of previous profitable information as the basis for determining the next target is called budget ratcheting. The ratchet principle refers to the tendency to use current performance as a criterion in determining future goals. The concept of budget ratcheting has the meaning of information asymmetry, namely the existence of an imbalance of information between agents and principals, so that managers use previous performance to update future performance targets (Weitzman, 1980; Leone & Rock, 2002). In the condition of a large agency problem means that information asymmetry is also high, then the possibility of budget ratcheting will be even greater. In local government budgeting, there are complex agency problems that are directly proportional to information asymmetry, so the possibility of Budget Ratcheting is also getting bigger.

Weitzman (1980) states that current performance acts like a grooved gear in fixing the starting point for the next period's target. Lee and Plummer (2007) found that the government budget for district schools experienced a ratchet, i.e. excess spending in the previous year led to a larger increase in budgeted spending in the following year. A favorable variant of last year's performance is associated with an increase in targets for the current year, while an unfavorable variance is associated with a decrease in next year's targets. The ratchet effect in budgeting appears in the form of executive opportunistic behavior by modifying the current year's budget realization towards the end of the fiscal year. The analytical agency model

states that superiors/principals can use the performance of subordinates/agents in the current period to renew beliefs about future period performance, which form of confidence is contained in the negotiation process in the future budget period (Fisher et al., 2006 in Susanto and Halim, 2007). 2018). With the ratchet effect, the budget in the future period will be equal to the current period budget plus adjustments (ratchet effect) which are determined based on the difference between the actual output (realization) compared to the budget in the current period (Aranda & Arellano, 2010; Fisher et al., 2006 in Susanto and Halim, 2018).

In the era of regional autonomy, regions were given full rights to manage their own region. The implication of this condition is that regional independence will be able to meet all the financing needs of the determined expenditure. For this reason, it is necessary to carry out a process of determining revenue targets in an area or what is called the process of budgeting local revenue. However, in the process of determining the target, problems are prone to occur, such as the revenue target being higher (overforecast) or lower (underforecast) than the actual fiscal capacity caused by biased behavior of budget actors and errors (Voorhees, 2006). Determination of revenue targets that are lower/smaller (underforecast) from the actual fiscal capacity by the executive is motivated by a high level of dependence or strong budgetary pressure (Voorhees, 2006; Marlowe, 2009). This high level of dependence makes local governments need good instruments to manage regional finances. An increase in revenue targets for a certain level from the previous year's income variance will provide legitimacy for local governments to increase expenditures/expenditures in the following year. Such conditions are called pro cyclical ratchet in the budget (Marlowe, 2009). This condition implies that in the local revenue (PAD) budgeting process by the government, there are many self-interests for increasing or reducing the budget as a result of opportunistic behavior among budget actors.

This is in line with the findings (Abdullah & Nazry, 2014) that budget changes contain important information about the self-interest of budget actors in regional budgeting. Arsani & Sihombing (2020) found that the revenue budget targeting model in local governments still provides incentives for budget makers to behave opportunistically in the asymmetry of information about a region's fiscal capacity. Susanto (2018) found that there was a ratchet effect on the revenue budget of the Regional Apparatus Work Unit. Based on this description, the first hypothesis of this study is as follows:

H1: There is a budget ratchet in the budgeting of Local Revenue in the Provincial Government in Indonesia

The allocation of resources into spending has always been a dynamic process, due to limited resources and unlimited needs creating competition between work units in the government, so that various strategies are carried out to be able to get the amount of resource allocation in accordance with the "wants" of budget actors (Marlina, 2019). The capital expenditure budget (which produces fixed assets) is often an object that is used to fulfill self-interest for budget decision makers, especially for asset procurement activities that are difficult to identify the actual acquisition value (Abdullah, 2012). Budget actors have an incentive to behave opportunistically in budgeting by increasing the estimate for the next period's budget (Susanto, 2018).

The tendency of opportunistic behavior in government expenditures is indicated by the tendency of a greater response to the positive variance (overspending) than the negative variance (underspending) as the basis for determining the next budget (Lee & Plummer, 2007). Arsani & Sihombing (2020) find that the analysis of the ratchet effect on the expenditure component shows that the performance of the previous year's budget tends to be underspending. This shows that there is an asymmetric ratchet, which means that the negative variance of the previous year's budget received a greater response from budget planners as a determinant of the current period's budget compared to the positive variance of the previous year's budget. Thus, both positive and negative variances in government spending/expenditures tend to result in an increase in the budget for the next period. Thus, government spending/expenditure tends to increase from time to time (Marlowe, 2009). This is supported by the findings of Arsani & Sihombing (2020) that the variance of the previous

year's budget has a significant effect on the next year's budget, which means that although regulations related to the budgeting process in Indonesia emphasize performance-based budgeting, in fact the incrementalism system is still applied. Marlina (2019) found that there was a ratcheting effect on the regional budget of the district/city government of Aceh Province. Based on the description, the second hypothesis of this research is:

H2: There is a budget ratcheting in the regional expenditure of the provincial government in Indonesia.

Methods

This type of research is descriptive quantitative research. This study was conducted to analyze Budget Ratcheting on Local Revenue and Regional Expenditures in provincial governments in Indonesia.

The population in this study used all provincial governments in Indonesia. The total number of provinces in Indonesia is 34 provincial governments. The population under study is small, so the sampling technique used is saturated sample. The observation period in this study is 2 (two) years starting from 2020-2021. The basis for determining the observation period of this research is the change in regional financial management regulations with the issuance of Instructions which will form the basis for regional financial management during the pandemic, namely, the issuance of Joint Decrees of the Minister of Home Affairs and the Minister of Finance Number 119/2813/SJ and Number 177/KMK. 07.2020 regarding the Acceleration of Adjustment of the 2020 APBD in the Context of Handling Covid-19 related to this research variable. In the next stage, 34 provincial governments will be multiplied by 2 years of observation period (2020-2021) so that the final number of observations is 68 research observations.

The type of data in this study is quantitative data in the form of numbers. Quantitative data consists of Regional Local Revenue and Regional Expenditures. The data source of this research uses secondary data. In this study, the data used is sourced from the Financial Statements of Provincial Governments in Indonesia for 2020 – 2021 obtained from the Directorate General of Fiscal Balance of the Republic of Indonesia (djpk.kemenkeu.go.id). In this study, the data collection technique used is the documentation technique to obtain secondary data according to the research reasons.

The variables in this study consist of Regional Original Revenue, Expenditures, and Budget Ratcheting. The definition and measurement of each variable is:

a. Local Revenue

Local Revenue is regional revenue originating from natural resources which are managed directly by the region. This can be seen from the Provincial Government Budget Realization Report in Indonesia.

b. Regional Expenditures

Regional Expenditures are resources used in carrying out regional government functions which are regional obligations. In this study, it can be seen from the Budget Realization Report of the Provincial Government in Indonesia.

c. *Budget Ratcheting*

One of the aspects involved in targeting is the ratcheting effect. This happens because the formation of the next year's performance target is determined because of the difference between the previous year's performance target and that year's target (Aranda, Arellano, & Davila, 2014). The measurement of this variable uses the model from Lee Plummer (2007) as follows:

$$B_t - B_{t-1} / B_{t-1} = \delta / B_{t-1} + \lambda (A_{t-1} - B_{t-1}) / B_{t-1}$$

Where B_t is explained as the Regional Revenue and Expenditure Budget in year t , B_{t-1} as the Regional Revenue and Expenditure Budget in year $t-1$, δ as a constant, λ as a regression coefficient, A_{t-1} as the realization of the Regional Revenue and Expenditure Budget in year $t-1$ and ε as error terms. $B_t - B_{t-1}$, is used to measure the increase in the

current year's APBD budget compared to last year's APBD, as a reflection of the existence of Budget Ratcheting in determining APBD targets. $B_t - B_{t-1}$ describes how much of an increase in the current year's APBD is compared to the previous year's APBD. This is used to see the existence of Budget Ratcheting in determining the target of Regional Revenue and Expenditure.

This study uses a simple regression analysis approach. The method of analysis and testing of the first and second hypotheses in this study was carried out using linear regression analysis which refers to the research model.

Results and Discussions

Based on the results of descriptive statistics, it can be concluded that the average Local Revenue budget for each period grew by 4.98% with a standard deviation of 0.148. While the Local Revenue variant has a positive variance of 0.022. Regional Expenditures in each budget period also grew by 2.49% with a standard deviation of 0.116 with a positive variance of 0.014. The Regional Revenue variable generated by adding up the items in each component has a range of 26.57 to 31.45 with an average value of 28.39 for each period accompanied by a standard deviation of 1.161 and a variance of 1.239. The Regional Expenditure variable which is calculated by looking at the total for each component of the Regional Expenditure has a range of 28.22 to 31.80 which has an average value of 29.55 with a standard deviation of 0.824 and a variance of 0.679.

Table 2
Regression Results of the PAD Growth Model
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.066	.015		4.388	.000
At-1 – Bt-1(PAD)	.427	.073	.585	5.865	.000

Source: Secondary Data processed (2022)

The results of the regression test show that the value of the ratcheting coefficient in the local revenue budget is 0.427. Based on the hypothesis testing design, the requirement to declare the ratcheting effect in the regional original revenue budget is $\lambda \neq 0$. Referring to these conditions, it can be said that there is a ratcheting effect in the local revenue budget.

Table 3
Regression Results of BD Growth Model
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.074	.019		3.808	.000
At-1 – Bt-1(BD)	.546	.159	.398	3.432	.000

Source: Secondary Data processed (2022)

The results of the regression test show that the value of the ratcheting coefficient in the regional expenditure is 0.546. Based on the hypothesis testing design, the requirement to declare the ratcheting effect in the regional expenditure is $\lambda \neq 0$. Referring to these conditions, it can be said that there is a ratcheting effect in the regional expenditure.

Based on the results of the research data that has been carried out, it can be seen that there is a budget ratcheting effect that occurs on Local Revenue. The Growth Regression Test shows that there is a ratchet coefficient value that is not equal to zero or 0. This indicates that there is a partial budget ratcheting effect on the budgeting of Regional Original

Revenue in the Provincial Government in Indonesia. The value of the Ratchet Coefficient in Regional Original Revenue is 0.427, which means it is positive.

The findings of this study strengthen the theory of Leone and Rock (2001) which states that ratcheting occurs when there is a positive variance in the performance of the budget which results in higher changes to the budget in the following year compared to budget changes associated with negative budget variances. In order for the performance of Local Revenue to be said to be good, the realization must exceed the specified target, so that the Regional Government tends to set a budget below its realization target. It aims to increase the possibility of achieving the planned targets. This research is also in line with research by Lim (2011), Susanto & Halim (2016), and Susanto (2018) which found a ratcheting effect on government budgeting, especially local revenue. These findings indicate that a region's revenue budget tends to be underforecast. This condition indicates that there is a tendency for budget makers to behave in a way that they are able to set a target for local revenue that is lower than the actual fiscal capacity. This action is included in a form of behavioral bias which is a problem in the realization of performance-based budgets in the scope of local government in Indonesia.

The results showed that Budget Ratcheting in Regional Expenditures had a positive variance. This indicates that the Budget Ratcheting effect also occurs in Regional Expenditures on Provincial Governments in Indonesia. Budget Ratcheting in Regional Expenditures has a positive coefficient value of 0.546 which means that the Budget Ratcheting coefficient in Capital Expenditures is greater than zero (0). This research is in line with the research of Susanto & Halim (2016) and Marlina (2019) which found the existence of Budget Ratcheting in Expenditure Budgeting in Regional Governments. Susanto & Halim (2016) found a ratchet asymmetry which means that the negative variance from the previous year's budget received greater feedback to determine the amount of the budget in the current year period compared to the positive variance of the previous year.

This study strengthens the findings of Lee & Plummer (2007) which analyzes the relationship between the budget variance which can be seen from the overspending and the increase in the budget in the following year. Under these conditions, it can be seen that there is a bias in determining budget targets within local governments. This is in line with the research of Safitri & Sari (2020) which states that the effect of budget ratcheting in budgeting is inseparable from behavioral bias or moral hazard from budget actors in the preparation of spending budgeting, which is spearheaded by agency problems and opportunistic behavior.

Conclusions and Suggestions

Based on the analysis conducted on the results of the growth regression in the Realization Report of the Regional Government Revenues and Expenditures of the Provincial Government in Indonesia in 2020 to 2021, it can be concluded that from the growth regression results, it is stated that Budget Ratcheting occurs in the budgeting of Local Revenue and Regional Expenditure budgeting.

Based on the results of this study, the existence of a ratcheting effect in local revenue and expenditure budgeting can lead to inefficiency, so that the government budgeting process, especially the budget setting model, should be a major concern, because the findings regarding the ratchet effect in regional revenue and expenditure budgeting have implications that the model for setting revenue and expenditure budget targets within the scope of local government provides incentives for budget actors to behave opportunistically over the asymmetry of information about the fiscal capacity of a region. For this reason, continuous monitoring is also needed.

This research has been carried out as well as possible, but the researcher realizes that there are still limitations in this study, including: (1) This study uses the scope of research only on Local Revenue and Regional Expenditures, (2) The budget ratcheting measurement model uses the Lee & Plummer (2007). Based on the limitations of this study, the researcher proposes several suggestions for further research, including: (1) Expanding the scope of research, for example analyzing the effects of ratcheting on the balancing fund and capital expenditure budgets, (2) using other budget ratcheting measurement models such as those

developed by Marlowe (2009) to get a deeper explanation about positive and negative variance, and (3) Adding other variables that can be used to better explain the effect of Budget Ratcheting in the Government Budgeting Process in Indonesia.

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