

## The Mediating Role of Budget Ratcheting on Own-Source Revenue and Revenue Sharing Funds' Effect on Capital Expenditure

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This study examines the direct effects of Local Own-Source Revenue (PAD) and the Revenue Sharing Fund (DBH) on Capital Expenditure, while investigating the mediating role of Budget Ratcheting. Using a quantitative approach, the study analyzes the time-series cross-sectional data from 23 regencies/cities in Aceh Province during 2018–2022, obtained from audited Local Government Financial Statements (LKPD). Multiple linear regression analysis was performed using SPSS version 25, supported by classical assumption tests to ensure model validity. The findings indicate that PAD does not have a significant direct effect on Capital Expenditure ( $p = 0.234$ ), suggesting the influence of contextual factors such as governance quality and fiscal policy implementation, whereas DBH has a significant positive effect ( $p = 0.000$ ). Mediation analysis reveals that Budget Ratcheting significantly strengthens the relationship between PAD and Capital Expenditure ( $p = 0.015$ ) and mediates the relationship between DBH and Capital Expenditure through a significant negative adjustment effect ( $p = 0.005$ ). These results underscore the importance of revenue-sharing mechanisms and adaptive budgeting practices in supporting regional development.

**Keywords:** Local Own-Source Revenue; Revenue Sharing Fund; Capital Expenditure; Budget Ratcheting

## **INTRODUCTION**

Own-Source Revenue (OSR), Revenue Sharing Funds (RSF), and Capital Expenditure play vital roles in fiscal management and regional development (Nur Oktavianti et al., 2023). This study aims to examine the mediating role of budget ratcheting in the relationship between OSR, RSF, and Capital Expenditure in the Provincial Government of Aceh (Liza & Mariana, 2023). Budget ratcheting refers to a pattern where current budget allocations are heavily influenced by the previous year's budget realization. When past expenditures are high, the next budget tends to increase, and vice versa (Dewi et al., 2023; Hayati et al., 2024). OSR directly affects Capital Expenditure. Increased OSR enables local governments to allocate more funds for capital projects that are essential for infrastructure development and regional economic growth (Hasanuddin et al., 2021). Furthermore, OSR supports better financial planning and resource allocation, which enhances overall financial performance in the public sector (Rahman, 2022; Marlina, 2019).

RSF, as transfers from the central government, also significantly influence Capital Expenditure. Higher RSF inflows increase fiscal capacity for capital projects that might otherwise be underfunded (Hanifah & Winarna, 2024; Kuroki & Shuto, 2022). Studies show that fiscal decentralization through RSF leads to higher capital spending and stimulates local economic activities (Arifai et al., 2025; Rahman, 2022). Understanding the dynamics of budget ratcheting is crucial for optimizing fiscal policies in local governments. While it can secure continuity in capital projects through predictable budget increases, it may also lead to rigidities that limit fiscal responsiveness to changing economic conditions and emerging priorities (Dewi et al., 2023; Sari et al., 2020). Effective budget planning should consider not only historical expenditures but also current economic indicators and development targets to ensure that public investments are aligned with strategic regional goals. Therefore, incorporating mechanisms for greater budget flexibility and periodic evaluations can help local governments optimize the impact of OSR and RSF on capital expenditures, enhancing regional growth and infrastructure development (Hanifah & Winarna, 2024; Kuroki & Shuto, 2022).

The mediating role of budget ratcheting is crucial (Liza & Mariana, 2023; Manbait et al., 2022; Mubarak et al., 2023; Niazi et al., 2019). When previous budget performance meets or exceeds targets, future budget allocations tend to rise, while negative variances do not necessarily reduce budgets proportionally. This strengthens the impact of OSR and RSF on Capital Expenditure (Dewi et al., 2023; Hla et al., 2016). However, this pattern can also create inefficiencies as spending decisions rely more on past performance than current needs (Hla et al., 2016; Sari et al., 2020). This research aims to provide deeper insight into budgeting practices and resource allocation in the Provincial Government of Aceh to improve budget effectiveness and public service delivery.

## **LITERATURE REVIEW**

### **Own-Source Revenue and Capital Expenditure**

Own-source revenue (OSR) serves as a key fiscal resource for local governments, influencing their ability to fund capital expenditure (CapEx) (Triyanto et al., 2017). Increasing OSR encourages investment in infrastructure and development projects essential for regional economic growth, while also enhancing fiscal autonomy and enabling more flexible financial planning, thereby improving public sector performance (Fauji & Syafitri, 2024; Hasanuddin, 2021). Studies show that strong financial performance driven by OSR expands the government's capacity for capital spending (Mahdawi et al., 2021; Sawitri et al., 2020). However, some research indicates that the

impact of OSR on CapEx varies across regions due to differences in economic context and administrative capacity (Mahdawi et al., 2021). While OSR strengthens fiscal autonomy and allows local governments to optimize budget allocation for essential services and infrastructure (Ishak, 2021; Saleh et al., 2021), external factors such as economic fluctuations and pandemics can destabilize capital spending reliant on OSR (Aloqab et al., 2024). Moreover, reliance on central government funding in certain regions limits the full potential of OSR, resulting in disparities in fiscal capabilities (Mwale & Hapompwe, 2024; Sulistyowati & Wibowo, 2022).

Despite these challenges, literature generally agrees that effective financial management and favorable economic conditions significantly enhance OSR's role in supporting capital expenditures (S. Rebutan & A. Ching, EdD, 2023; Said et al., 2020). Strong fiscal management practices, including budgetary controls and transparent accounting, are critical to achieving fiscal objectives and meeting community expectations (Fathirah et al., 2024; Mohr & Afonso, 2023). Furthermore, economic shocks can complicate fiscal planning by affecting projected revenues, highlighting the need for innovation and adaptability in local governance to ensure the sustainable use of OSR (Sulistianingtyas & Suhardjanto, 2023; Tuxhorn et al., 2022). In summary, while economic instability and dependence on fixed government funding create challenges, strategic use of OSR remains a fundamental pillar for enhancing capital expenditure and overall public fiscal performance, provided it is supported by sound management and responsive local policies.

### **Revenue Sharing Funds and Fiscal Decentralization**

Revenue sharing funds (RSF) play a pivotal role in the framework of fiscal decentralization by facilitating transfers from central to local governments, aiming to equalize fiscal capacity across regions (Muti'ah, 2017; Nur et al., 2022). This decentralization mechanism enhances the ability of local governments to finance capital projects, which are critical for local economic development (Isufaj, 2014). Increasing RSF inflows have been correlated with improved local government financing capabilities, enabling significant advancements in capital expenditure allocation that ultimately spur economic growth (Hanifah & Winarna, 2024). Such inflows enhance public investment directly, supporting the notion that RSF contributes substantially to local government financial capacity and investment initiatives. Empirical evidence supports these claims, indicating that RSF not only bolsters capital expenditures but also correlate positively with indicators of local economic performance. Ginting et al. (2019) assert that fiscal decentralization underpinned by RSF can stimulate local government expenditures, catalyzing economic growth through improved public infrastructure and services. Moreover, Armawaddin et al. (2022) point out that local governments, possessing better regional knowledge, can allocate these funds more effectively across economic sectors. This assertion is echoed in the research by Hidayat & Herlin (2019), which illustrates that fiscal decentralization drives industrial development, thus aligning capital investment with local economic needs.

The relationship between RSF, capital expenditure, and economic development is corroborated by additional studies. Ishak (2021) documents a clear connection between regional government financial performance and capital expenditure, reinforcing that enhanced fiscal decentralization leads to a more effective allocation of resources at the local level. This enhanced capital expenditure potential is critical for fostering local economic development, as demonstrated by Rahman (2022), who emphasizes that local investment promoted through RSF is a linchpin for sustainable economic growth in emerging economies. Collectively, the evidence underscores the importance of revenue sharing funds in facilitating fiscal decentralization, which, in turn, enhances local governments' ability to engage in productive capital investment. The resulting economic

development initiatives are crucial in addressing regional disparities and promoting equitable growth across various territories.

### **Budget Ratcheting**

Budget ratcheting is a phenomenon in public finance where budget allocations for future periods tend to increase based on the previous period's budget performance. This tendency shows that revenue surpluses from past periods are more likely to influence budget increases, while revenue deficits do not typically lead to budget reductions (Dewi et al., 2023; Pratiwi et al., 2020). As a result, budget expectations can become inflated over time, affecting fiscal discipline and resource allocation efficiency. This occurs because there is often a psychological and administrative desire to maintain or increase budget levels, even if actual financial conditions do not support it (Abdullah & Nazry, 2015). Pratiwi et al. (2020) note that this behavior can disrupt the balance between revenue and spending, leading to inefficiencies and potential misuse of resources.

The impact of budget ratcheting is not limited to revenue and spending imbalances; it also affects capital allocation decisions. Nur Hanifah & Winarna (2024) found that budget ratcheting can reduce the effectiveness of capital expenditure allocations, particularly in regions practicing fiscal decentralization. When budgets are not adjusted downward despite revenue shortfalls, financial accountability weakens, and fiscal discipline deteriorates. This cycle of inflated budget expectations creates inefficiencies and misalignments in public service delivery (Pratiwi et al., 2020; Hanifah & Winarna, 2024). To address this issue, budget formulation should consider not only past performance but also realistic future projections to prevent budget inflation and improve resource efficiency.

## **RESEARCH METHOD**

This think about utilizes a quantitative approach with a different direct relapse investigation strategy. The information utilized in this investigate is time-series cross-sectional information, speaking to perceptions from 23 regencies/cities in Aceh Area for a 5-year period (2018–2022). This approach permits the investigation of connections between factors over time without the complexities of board information structures. The populace in this consider comprises of all regencies/cities in Aceh Area. The test incorporates 23 regencies/cities watched over 5 a long time (2018–2022), coming about in a add up to of 115 information focuses. The inspecting strategy utilized is purposive examining, with the model being regencies/cities that have total information within the Nearby Government Monetary Statements (LKPD) reviewed amid the think about period. This inquire about utilizes auxiliary information gotten from the examined LKPD of nearby governments in Aceh Territory from 2018 to 2022. The information incorporate data on Local Own-Source Revenue (Pad), Revenue Sharing Fund (DBH), Capital Expenditure, and Budget Ratcheting, which reflects budget alterations based on past budget performance. The factors in this ponder are operationalized as appeared within the taking after table:

**Table 1. Operationalization Table**

<b>Variable</b>		<b>Indicator</b>	<b>Scale</b>
Local Own-Source Revenue (X1)	Revenue generated by local governments from local taxes, service fees, asset management, and other legitimate sources (Nur Oktavianti et al., 2023).	Realization of Regional Original Revenue in the Budget Realization Report (LRA) (Abdullah & Junita, 2016; Arsani & Sihombing, 2020; Liza & Mariana, 2023).	Ratio
Revenue Sharing	Funds transferred from the central government to local	Realization of Revenue Sharing Fund in the Budget Realization	Ratio

Fund (X2)	governments derived from national revenue, including taxes and natural resources (Saputra et al., 2018).	Report (LRA) (Abdullah & Junita, 2016; Arsani & Sihombing, 2020; Liza & Mariana, 2023).	
Capital Expenditure (Y)	Government spending on long-term investments in fixed assets and infrastructure (Ramadana et al., 2023)	Realization of Regional Capital Expenditure in the Budget Realization Report (LRA) (Liza & Mariana, 2023; Reskiamalia et al., 2025)	Ratio
Budget Ratcheting (Z)	The tendency for budgets to increase gradually and become difficult to reduce, even when needs decline (Kuroki & Shuto, 2022)	$PAD_t - PAD_{t-1} = \alpha + \gamma (PADR_{t-1} - PAD_{t-1}) + \varepsilon$ (Abdullah & Junita, 2016; Arsani & Sihombing, 2020; Liza & Mariana, 2023)	Ratio

Source: processed data, 2025

The analysis process is carried out using SPSS version 25. The stages of analysis include descriptive statistical analysis to identify the basic characteristics of each variable and classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity) to ensure the validity of the regression model (Bercu et al., 2015; Dette & Munk, 1998; Kyriazos & Poga, 2023; M R Ab Hamid et al., 2017; Mariana et al., 2024; Proia, 2013; Qu & Lin, 2008). Hypothesis testing is performed to determine the influence of Local Own-Source Revenue, Revenue Sharing Fund, and Budget Ratcheting on Capital Expenditure. The mediating role of Budget Ratcheting is examined using the Baron & Kenny (1986) method, which observes the direct and indirect effects of Local Own-Source Revenue and Revenue Sharing Fund on Capital Expenditure. The regression equations used in this study are as follows:

1. Direct Effect of Local Own-Source Revenue and DBH on Capital Expenditure:  
 $Y = a + b_1X_1 + b_2X_2 + e_1$

2. Mediation of Budget Ratcheting:

a. For Local Own-Source Revenue:

$$Z = a + b_1X_1 + e_2$$

b. For DBH:

$$Z = a + b_2X_2 + e_3$$

Explanation:

Y = Capital Expenditure

X<sub>1</sub> = Local Own Revenue (PAD)

X<sub>2</sub> = Revenue Sharing Fund (DBH)

a = Constant

b<sub>1</sub>, b<sub>2</sub> = Regression coefficients for each independent variable

e = Error (residual)

## RESULTS

### Descriptive Statistics

Table 2. Descriptive Statistics (N=155)

Variable	Minimum	Maximum	Mean	Std. Deviation
Budget Ratcheting (Z)	22.31	29.61	24.6155	1.58436
Capital Expenditure (Y)	24.99	26.90	26.2223	0.39366
Local Revenue (X1)	3.81	6.13	5.1719	0.45917

Revenue Sharing Fund (X2)	20.42	26.81	25.2656	1.10543
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Source: processed data, 2025

Table 2 presents the descriptive statistics of the variables used in the analysis, including Budget Ratcheting (Z), Capital Expenditure (Y), Local Revenue (X1), and Revenue Sharing Fund (X2). The total number of observations for each variable is 115, indicating there are no missing data points in the dataset. The variable Budget Ratcheting (Z) has a minimum value of 22.31 and a maximum value of 29.61, with an average (mean) of 24.62 and a standard deviation of 1.58. This suggests that the values of Budget Ratcheting are relatively concentrated around the mean with minimal variation. The dependent variable, Capital Expenditure (Y), ranges from 24.99 to 26.90 with a mean of 26.22 and a very low standard deviation of 0.39. This indicates that capital expenditures are quite stable across the observations.

Moreover, Local Revenue (X1) shows a minimum value of 3.81 and a maximum of 6.13, with an average of 5.17 and a standard deviation of 0.46, reflecting moderate variability. Meanwhile, Revenue Sharing Fund (X2) has values ranging from 20.42 to 26.81, with a mean of 25.27 and a standard deviation of 1.10, suggesting a small degree of dispersion from the average. Overall, the low standard deviations across all variables indicate that the data points are clustered closely around their respective means, highlighting consistent patterns, especially for Capital Expenditure (Y), which is the most stable variable in the dataset.

### Classical Assumption Test Normality Test

**Table 3. Normality Test Result**

		Unstandardized Residual
N		115
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.35002477
Most Extreme Differences	Absolute	.068
	Positive	.054
	Negative	-.068
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: processed data, 2025

The normality test results for the unstandardized residuals, as shown in the table, indicate that the residuals are normally distributed. With a sample size of 115, the mean value of the residuals is approximately 0.0000000, and the standard deviation is 0.3500, reflecting a balanced distribution around the mean. The Kolmogorov-Smirnov Test with Lilliefors Significance Correction yields a test statistic of 0.068 and a significance value (p-value) of 0.200. Since the p-value is greater than the 0.05 significance threshold, we fail to reject the null hypothesis, suggesting that the residuals follow a normal distribution. This normality assumption being met indicates that the regression model is well-fitted and the error terms are appropriately distributed, supporting the reliability of the model's estimations and inferences.

### Multicollinearity Test

**Table 4. Multicollinearity Test (Collinearity Statistics)**

Variable	Tolerance	VIF (Variance Inflation Factor)
Local Revenue (X1)	0.993	1.007
Revenue Sharing Fund (X2)	0.994	1.006
Budget Ratcheting (Z)	0.992	1.008

Source: processed data, 2025

Table 4 appears the comes about of the Multicollinearity Test for the autonomous factors: Local Revenue (X1), Revenue Sharing Fund (X2), and Budget Ratcheting (Z). The Resilience values for all factors are near to 1, demonstrating moo multicollinearity. Moreover, the Variance Inflation Factor (VIF) values are all roughly 1.0, which is well underneath the commonly acknowledged limit of 10. This affirms that there's no noteworthy multicollinearity among the free factors, meaning that they are autonomously contributing to the relapse demonstrate without over-the-top relationship.

### Autocorrelation Test

**Table 5. Durbin-Watson Test Results for Autocorrelation**

Durbin-Watson Value Range	Interpretation
0.00 – 1.50	Possible positive autocorrelation
1.50 – 2.50	Little to no autocorrelation (ideal range)
2.50 – 4.00	Possible negative autocorrelation

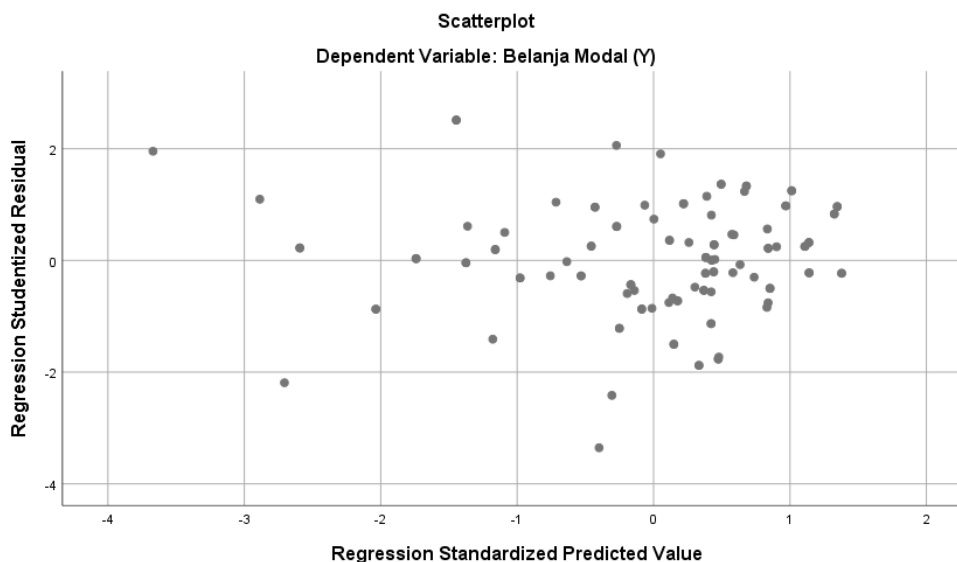
  

Model	Durbin-Watson Value	Interpretation
Regression Model 1	1.691	No serious autocorrelation; residuals independent

Source: processed data, 2025

Table 5 shows the Durbin-Watson test statistic used to detect autocorrelation in the residuals of the regression model. The value of 1.691 falls within the range of 1.50 to 2.50, indicating that there is little to no autocorrelation present. This means the residuals are independent, fulfilling one of the key assumptions of classical linear regression, and supports the validity of the regression results.

### Heteroscedasticity Test



**Figure 1. Heteroscedasticity Test Result**

The scatterplot outlines the relationship between the Relapse Standardized Anticipated Values and the Relapse Studentized Residuals for the subordinate variable Capital Consumption (Y). The focuses are haphazardly scattered around the flat hub at zero, demonstrating that the residuals are conveyed without any clear design. This randomness suggests that the assumption of homoscedasticity is met, where the variance of the residuals remains constant across different levels of the predicted values. Moreover, there is no visible systematic pattern or curvature, confirming the assumption of linearity in the regression model. Additionally, the absence of obvious

clustering or extreme outliers supports the notion that the residuals are independent and well-behaved. Therefore, the scatterplot validates the reliability of the regression model in meeting its core assumptions.

### F-Test and Determination Coefficient Analysis

**Table 6. Results of F-Test and Determination Coefficient**

Model	R	R Square	Adjusted R Square	F Statistic	Sig. F (p-value)
1	0.383	0.147	0.131	9.620	0.000

Source: processed data, 2025

Based on the results in Table 6, the value of R is 0.383, indicating a moderate positive relationship between Local Own-Source Revenue (PAD) and Revenue Sharing Fund (DBH) with Capital Expenditure. The R Square value of 0.147 shows that 14.7% of the variation in Capital Expenditure can be explained by PAD and DBH, while the remaining 85.3% is influenced by other factors outside the model. The Adjusted R Square value of 0.131 reflects a slight decrease after adjusting for the number of predictors but still indicates a meaningful level of explanation.

The F-test results reveal an F value of 9.620 with a significance level of 0.000, which is less than 0.05. This means that, simultaneously, PAD and DBH have a statistically significant effect on Capital Expenditure in the local governments of Aceh Province during the study period. Therefore, both variables significantly contribute to explaining the changes in government capital spending as shown in Table 6.

### Multiple Linear Regression Analysis

**Table 7. Regression Coefficients**

Variable	B	Std. Error	t	Sig.
Constant	23.325	0.860	27.123	0.000
Local Own-Source Revenue	-0.090	0.075	-1.197	0.234
Revenue Sharing Fund	0.133	0.031	4.274	0.000

Source: processed data, 2025

Based on the results in Table 7, the multiple linear regression equation to predict capital expenditure (Y) is:

$$Y=23.325-0.090X1+0.133X2+e1$$

The constant value of 23.325 is statistically significant ( $p = 0.000$ ), indicating the baseline capital expenditure when independent variables are zero. The coefficient for Local Own-Source Revenue is -0.090, but this variable is not statistically significant ( $p = 0.234$ ), meaning that Local Own-Source Revenue does not have a significant effect on capital expenditure in this model. On the other hand, the Revenue Sharing Fund has a coefficient of 0.133, which is statistically significant ( $p = 0.000$ ), showing a positive and significant impact on capital expenditure.

Based on the relapse comes about, Local Own-Source Revenue does not have a noteworthy impact on Capital Expenditure, as the importance esteem of 0.234 is more prominent than 0.05. This implies the primary theory is rejected. On the other hand, the Revenue Sharing Fund incorporates a positive and noteworthy impact on Capital Consumption, with a importance esteem of 0.000, which is less than 0.05, so the moment speculation is acknowledged. Subsequently, as it were the Revenue Sharing Fund encompasses a noteworthy impact on Capital Expenditure in this consider.

**Path Analysis**

**Table 7. Regression Analysis Results for Testing the Mediation Role of Budget Ratcheting on the Effect of Local Own-Source Revenue on Capital Expenditure**

Model	R	R Square	Significance (Sig.)	Variable	B	Sig.
1	0.086	0.007	0.360	Local Own-Source Revenue (PAD)	-0.074	0.360
				Local Own-Source Revenue (PAD)	-0.086	0.276
2	0.243	0.059	0.015	Budget Ratcheting	-0.057	0.015

**Source:** Processed Data, 2025

Based on the results in the table 7, the first model shows that Local Own-Source Revenue (PAD) has a negative but statistically insignificant effect on Capital Expenditure, with a coefficient of -0.086 and a p-value of 0.276. The overall model fit is very weak, with an R-square of only 0.007 and a non-significant F-test ( $p = 0.360$ ). When Budget Ratcheting is added as a mediator in the second model, the overall fit improves (R-square = 0.059,  $p = 0.015$ ). Budget Ratcheting has a statistically significant negative effect on Capital Expenditure, with a coefficient of -0.057 and a p-value of 0.015. However, Local Own-Source Revenue remains statistically insignificant in this model. Based on the analysis, the regression equations can be constructed as follows:  $Y=28.061-0.086X1-0.057Z+e2$

This indicates that Budget Ratcheting partially mediates the relationship between Local Own-Source Revenue and Capital Expenditure. Further mediation analysis is required to confirm the mediation effect according to Baron and Kenny's method.

**Table 8. Mediation Analysis of Budget Ratcheting on the Relationship Between Revenue Sharing Fund (DBH) and Capital Expenditure**

Model	R	R Square	Significance (Sig.)	Variable	B	Sig.
1	0.368	0.136	0.000	Revenue Sharing Fund (DBH)	0.131	0.000
2	0.441	0.195	0.005	Revenue Sharing Fund (DBH)	0.136	0.000
				Budget Ratcheting	-0.061	0.005

**Source:** Processed Data, 2025

Based on Table 8, the first model demonstrates that the Revenue Sharing Fund (DBH) has a positive and statistically significant effect on Capital Expenditure, with a coefficient of 0.131 and a p-value of 0.000. The model's goodness of fit is indicated by an R-square of 0.136, suggesting that DBH explains 13.6% of the variance in Capital Expenditure.

When Budget Ratcheting is added as a mediating variable in the second model, the R-square increases to 0.195, with a significance level of 0.005, indicating an improvement in the model's explanatory power. In this model, DBH remains significant ( $B = 0.136$ ,  $\text{Sig.} = 0.000$ ), while Budget Ratcheting also shows a significant negative impact ( $B = -0.061$ ,  $\text{Sig.} = 0.005$ ). Based on the regression results in Model 2 from Table 8, the regression equation can be constructed as follows:  $Y=24.271+0.136X2-0.061Z+\epsilon3$

These results suggest that Budget Ratcheting partially mediates the relationship between Revenue Sharing Fund and Capital Expenditure. This partial mediation is indicated by the persistence of DBH's significance in the second model, alongside the emergence of a significant effect of Budget Ratcheting.

## DISCUSSION

### **Local Own-Source Revenue has a significant direct effect on Capital Expenditure.**

The research findings indicate that local own-source revenue does not have a statistically significant effect on capital expenditure, as evidenced by a significance value of 0.234, which exceeds the standard threshold of 0.05. This leads to the rejection of the first hypothesis. The current findings contrast sharply with numerous studies in the literature asserting a positive correlation between local own-source revenue and capital expenditure. Various studies underscore the notion that local governments can significantly enhance their capital expenditure through increased local revenues derived from taxes and other levies.

Several studies indicate that local own-source revenue positively affects capital expenditure, leading to enhanced capital expenditure and fostering regional economic growth (Ishak, 2021, 2022; Saprudin et al., 2023). The consensus indicates that local revenues play a crucial role in facilitating government investment in community infrastructure projects and services, ultimately fostering economic development. However, contrasting viewpoints also exist within the literature. Other studies also indicate that Local Own Revenue does not significantly influence capital expenditure (Arsallya et al., 2021; Ishak, 2021). Research by Hayati similarly discusses how financial independence demonstrated an insignificant effect on capital expenditure. This divergence highlights the multifaceted nature of local revenues and their impact on capital expenditure, which may vary by region, fiscal policy, governance structures, and methodological approaches in research.

The methodologies employed in previous research typically involve regression analyses to establish the relationships between local revenue and capital expenditure. Several studies utilize primary data to substantiate claims of significant relationships, while others explore the complexities of balancing funds and special allocation funds along with regional growth factors (Akhmad et al., 2019; Jumiaty et al., 2019). This multifactorial approach often results in nuanced insights on how local governments can optimize their budgets to better serve their constituents.

In terms of implications, this research provides critical insights for policymakers and local government officials. The contrast with established literature suggests that there may be underlying factors at play that inhibit the effectiveness of PAD in certain regions or contexts. Potential explanations for these discrepancies could include the adequacy of revenue collection mechanisms, governance quality, or even economic conditions specific to the area investigated. Consequently, this research urges a reevaluation of strategies employed by local governments to capitalize on revenue sources to facilitate capital expenditure effectively.

In summary, while this research contradicts a substantial body of literature that advocates for the significance of Local Own-Source Revenue in capital expenditure, it offers a fresh perspective that encourages further examination and contextual understanding of municipal finance dynamics. Therefore, this study contributes to the growing discourse by highlighting the importance of localized factors influencing financial performance and expenditure strategies.

### **Revenue Sharing Fund has a significant direct effect on Capital Expenditure.**

The research findings reveal a significant and positive correlation between revenue-sharing funds and capital expenditures, with a significance value of 0.000, which is below the 0.05 threshold. Therefore, the second hypothesis is accepted, establishing revenue-

sharing funds as an important determinant of capital expenditures within the scope of this study. This result aligns with numerous empirical studies highlighting the role of revenue-sharing mechanisms in enhancing local government investment capacity.

Previous research has shown that revenue-sharing funds, as part of the broader framework of balancing funds, have a positive and significant impact on capital expenditures (Hardiningsih et al., 2020). When viewed within the overall context of local revenue sources, the proper distribution and management of revenue-sharing funds significantly contribute to effective capital expenditure strategies at the local government level. Revenue-sharing funds play a crucial role in financing regional expenditures, including capital projects that support economic growth (Hayati et al., 2024; Saprudin et al., 2023). The consistency of these findings across various studies indicates a strong trend in the literature regarding the beneficial effects of revenue-sharing funds on capital spending.

However, some studies offer a more nuanced perspective. Although most research indicates a positive relationship between revenue-sharing funds and capital expenditures, factors such as economic conditions, governance structures, and financial management practices may influence the outcomes. Venables (2010) discusses the fiscal policy implications of resource revenues, emphasizing the need for prudence in public investment strategies to ensure sustainable benefits from resource wealth. This perspective suggests that while revenue-sharing funds positively affect capital expenditures, their effectiveness depends on local governance capacity and financial stewardship. Methodologically, this study's use of regression analysis is consistent with many others (Berg et al., 2013). The shared methodological approach reinforces the validity of the findings while highlighting the importance of contextual differences that may lead to varying results across different regions and governance models.

The implications of this research are significant for policymakers and local administrations. Empirical support for the positive impact of revenue-sharing funds on capital expenditures underscores the importance of developing efficient mechanisms for revenue sharing. With a clear understanding of how these funds can be effectively utilized, local governments can make informed budget allocation decisions prioritizing public investment and infrastructure development. In conclusion, this study enriches the existing literature by affirming the positive influence of revenue-sharing funds on capital expenditures, while encouraging deeper investigation into the factors that enhance or constrain this relationship. It stresses the need for local governments not only to optimize the use of revenue-sharing funds but also to consider broader systemic factors that may affect investment outcomes.

### **Budget Ratcheting significantly mediates the relationship between Local Own-Source Revenue and Capital Expenditure.**

The discoveries uncover that Budget Ratcheting altogether intervenes the relationship between Local Own-Source Revenue and Capital Expenditure. The beginning relapse demonstrate appears a negative but factually inconsequential relationship between Nearby Own-Source Income and capital use, with a coefficient of -0.086 and a p-value of 0.276, showing negligible quick affect. However, introducing Budget Ratcheting as a mediator improves the model fit, as demonstrated by an increase in R-square from 0.007 to 0.059 and a significant p-value of 0.015, highlighting Budget Ratcheting's crucial role in explaining variations in capital expenditure despite Local Own-Source Revenue remaining statistically insignificant.

This relationship aligns with previous studies emphasizing performance-based budgeting systems that seek to align expenditures with performance outcomes, thereby enhancing the effectiveness of capital spending (Susilawati et al., 2023). While this

framework highlights the importance of budgetary mechanisms, the current study adds nuance by incorporating Budget Ratcheting, suggesting that indirect effects through structured budgeting strategies can significantly influence expenditure outcomes. Effective budgeting procedures are also recognized as critical for public organizations, linking budgeting processes to the efficient allocation of resources (Anessi-Pessina et al., 2016). The results resonate with this view, positioning Budget Ratcheting as a structural mechanism bridging gaps between revenue generation and expenditure allocation. Conversely, some studies indicate that Local Own Revenue may not directly influence capital expenditures, as contextual factors such as local governance and economic conditions affect outcomes. Evidence supporting this variability is provided by Arsallya et al. (2021), whose findings mirror the insignificance of Local Own-Source Revenue in the mediated model. These contrasting results suggest that while budgeting mechanisms are vital, broader contextual factors must be considered in public budgeting analysis.

Methodologically, the use of regression analysis to explore mediation effects is consistent with approaches employed in other studies (Silviani & Adiputra, 2023). This alignment strengthens the credibility of the findings and opens avenues for further research applying mediation analysis frameworks such as those proposed by Baron & Kenny (1986). For public finance decision-makers, these findings underscore the importance of recognizing Budget Ratcheting as a key mediator affecting capital expenditure outcomes (Zhao et al., 2010). Strategically improving budgetary processes and understanding ratcheting effects may lead to more efficient public spending and infrastructure investment.

In summary, this study contributes to the literature by substantiating Budget Ratcheting's mediating role between Local Own-Source Revenue and Capital Expenditure. It highlights the necessity of a nuanced understanding of the mechanisms that translate revenue into effective public expenditures.

### **Budget Ratcheting significantly mediates the relationship between Revenue Sharing Fund and Capital Expenditure.**

The findings of this research indicate that Budget Ratcheting significantly mediates the relationship between Revenue Sharing Fund and Capital Expenditure. The initial regression analysis revealed a positive and statistically significant effect of Revenue Sharing Fund on Capital Expenditure ( $B = 0.131$ ,  $p = 0.000$ ) with an R-square value of 0.136, demonstrating that Revenue Sharing Fund independently contributes to capital expenditure in regional budgets. However, when Budget Ratcheting is introduced as a mediating variable, the model's explanatory power improves, with the R-square increasing to 0.195 ( $p = 0.005$ ). In this scenario, Revenue Sharing Fund remains significant ( $B = 0.136$ ,  $\text{Sig.} = 0.000$ ), while Budget Ratcheting demonstrates a significant negative impact ( $B = -0.061$ ,  $\text{Sig.} = 0.005$ ). These results confirm that Budget Ratcheting partially mediates the relationship between Revenue Sharing Fund and Capital Expenditure, indicating its role in shaping budget allocations, sometimes constraining capital expenditure flexibility despite access to revenue-sharing funds.

The findings align with previous research that underscores the critical role of revenue-sharing mechanisms in local government spending. For instance, Hayati et al. (2024) identified revenue-sharing funds as essential drivers of regional capital expenditures, emphasizing their contribution to local development projects. Similarly, Ishak (2021, 2022) demonstrated that effective revenue-sharing mechanisms bolster local governments' capital expenditure capabilities, enabling infrastructure development and economic growth. These studies collectively affirm that Revenue Sharing Fund is pivotal for financing public infrastructure and driving local economic development.

However, this research extends the existing literature by incorporating Budget Ratcheting as a mediating factor. Budget Ratcheting, referring to the phenomenon where past budget levels influence future budget allocations, introduces a nuanced understanding of the relationship between Revenue Sharing Fund and Capital Expenditure. This observation is consistent with Sandalgaard & Bukh (2023), who identified that budget ratcheting affects budgetary behavior in various institutional contexts, including public museums. Their analysis suggested that historical fiscal performance significantly influences future budget decisions, mirroring the partial mediation observed in this study.

Furthermore, the negative impact of Budget Ratcheting on Capital Expenditure observed in this research echoes the findings of Dewi et al. (2023), who highlighted the pro-cyclical nature of budget decisions driven by past revenue and expenditure patterns. Dewi et al. noted that while Budget Ratcheting facilitates access to budgetary resources, it can also introduce rigidities that hinder flexible allocations for capital expenditure. This suggests that although Budget Ratcheting can secure funding continuity, it may limit adaptive responses to dynamic fiscal needs, resulting in suboptimal capital spending.

From a methodological perspective, the use of regression models in this study follows best practices outlined in previous research (Ishak, 2021; Saprudin et al., 2023). Both studies employed quantitative analyses to elucidate the dynamics between revenue structures and capital planning. The methodological consistency across these studies strengthens the reliability of the findings, reinforcing the argument that Revenue Sharing Fund influences Capital Expenditure, while Budget Ratcheting mediates this effect.

The contribution of this research is twofold: first, it reaffirms the significance of DBH in supporting local government capital expenditures; second, it introduces Budget Ratcheting as a critical mediating factor that shapes the allocation of these funds. Policymakers are thus encouraged to recognize the implications of historical budget practices when planning future capital investments. Flexibility and adaptability in budgeting strategies are essential to optimize capital expenditures while maintaining alignment with revenue-sharing inflows (Homauni et al., 2023).

In conclusion, this study enriches the understanding of public finance management by integrating Budget Ratcheting into models assessing the impact of DBH on CE. The findings highlight the complexity of public budgeting, where historical budget decisions influence future expenditure flexibility. For policymakers, the results emphasize the need for adaptive budget strategies that consider both revenue generation and effective capital allocation to achieve sustainable regional development.

## **CONCLUSION**

The findings of this study reveal several important insights into the dynamics of local government capital expenditure. First, Local Own-Source Revenue does not have a statistically significant effect on Capital Expenditure, as indicated by a significance value of 0.234, which is greater than the standard threshold of 0.05. This result contradicts many previous studies that emphasize the positive influence of local revenues on capital investments, suggesting the need for further exploration into contextual factors such as governance quality, fiscal policies, and economic conditions that may affect this relationship. Second, the study demonstrates that the Revenue Sharing Fund has a positive and significant effect on Capital Expenditure, with a significance value of 0.000. This confirms that the Revenue Sharing Fund is a crucial driver of capital spending at the local government level, consistent with existing literature that highlights its role in enhancing local investment capacity. However, the effectiveness of the Revenue

Sharing Fund in driving capital expenditures is also influenced by economic conditions, governance structures, and financial management practices. Therefore, optimizing the mechanisms for revenue sharing and fund management is essential to effectively allocate capital expenditure for infrastructure development and regional economic growth. In addition, the think about finds that Budget Ratcheting altogether intercedes the relationship between Local Own-Source Income and Capital Use. In spite of the fact that Local Own-Source Revenue does not have a coordinate noteworthy impact on Capital Expenditure ( $p = 0.276$ ), the nearness of Budget Ratcheting improves the impact of Local Own-Source Revenue on Capital Expenditure ( $p = 0.015$ ). This affirms that Budget Ratcheting components play a pivotal part in guaranteeing that Local Own-Source Revenue successfully contributes to the assignment of capital consumption in nearby governments.

Finally, Budget Ratcheting is also found to mediate the relationship between Revenue Sharing Fund and Capital Expenditure. Regression analysis shows that the Revenue Sharing Fund positively influences Capital Expenditure ( $B = 0.131$ ;  $p = 0.000$ ); however, when Budget Ratcheting is introduced, the model's explanatory power increases ( $R$ -square from 0.136 to 0.195), albeit with a significant negative effect ( $B = -0.061$ ;  $p = 0.005$ ). These findings suggest that while the Revenue Sharing Fund supports capital expenditure, historical budget tendencies may limit budget flexibility, highlighting the need for more adaptive budgeting strategies to optimize regional development. Overall, the study emphasizes the importance of improving fiscal management and enhancing adaptability in budgeting practices to optimize the impact of revenue streams on capital expenditure and regional economic growth.

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#### **DECLARATION OF CONFLICTING INTERESTS**

The authors have declared no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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