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## Article

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## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics  
Düsternbrooker Weg 120  
24105 Kiel (Germany)  
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)  
<https://www.zbw.eu/>

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## The Effect of Budget Variances on the Local Government Budget Changes with Legislature Size as Moderator

Afrah Junita<sup>1</sup>, Erlina<sup>2</sup>, Erwin Abubakar<sup>3</sup>, Syukriy Abdullah<sup>4</sup>

<sup>1</sup>Doctoral Programe School of Economic and Business, Universitas Sumatera Utara, Indonesia

<sup>2,3</sup>Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia

<sup>4</sup>Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia, <sup>4</sup>E-mail: [afrahjunita77@gmail.com](mailto:afrahjunita77@gmail.com)

**Abstract** This research was examined the effect of budget variances on local budget changes using legislature size as moderator. Conceptually, rebudgeting is not different from the initial budget, but at the lower public participation. Previous research found that changes in the budget (PAB) were affected by variances of revenues and expenditures of the previous year budget. The results of this research showed that the revenue variance positively affected PAB, while expenditure variance had no effect. When legislature size (LS) used as moderator, the effect of the revenue variance was stronger on PAB with negative direction, but expenditure variance still has no effect on PAB although it had been moderated by LS.

**Key words** Budget changes, rebudgeting, legislature size, budget variances, local budget

**JEL Codes:** G18, G38, H72

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### 1. Introduction

Important implications of the implementation of local autonomy and fiscal decentralisation in Indonesia since the year 2001 are shown by an increasing local government independency in financial management, especially in budgeting. The process and the new approach in the formulation of the local budget applied have been encouraging the transparency, participation and accountability to become wider. The two parties acting as the decision makers and directly related to the local budget are the local heads on its capacity as executive and local house of people's representative as the legislative election. The process of formulating the local government budge areas in Indonesia placed the executive as the proposer and legislative as the validator or the one who gives the approval for the proposed budget as specified by local regulations (Maksum *et al.*, 2014). Both sides have a different motivation and function, so that in the discussion of the budget proposal must be done by negotiation and compromise (Abdullah, 2012). On the development and then, legislative has the power to require the executive to meet certain conditions before the budget proposal approved and upon the realization of the budget, the legislative shall perform a control (the power of the purse) (Ma & Lin, 2015). However, it is very paramount for members of the house to have knowledge about the budget in order to carry out the supervisory functions well (Ramdhani, 2014).

Lienert (2010) stated that: "Parliament's play roles acres to review and debate the government's draft ex ante budget (including its revenue estimates and its spending plans) and to authorize spending to implement the annual budget plan. Parliament also reviews of budget execution and, in some countries; it formally approves and discharges the government after annual budget implementation."

In line with the role of parliament as mentioned by Lienert (2010), in fact, policy-making in the modern democratic system produces a great deal of special-interest politics (Helpman and Persson, 2001). In term of policy, such as public finance, trade and regulation policy- related decision have given a rise to benefits for certain groups with costs which must be paid by the people. The role of the representative house or DPRD becomes more powerful as with the authority given to revise the proposed acceptance and expenditure proposed by the local government (executive). Abdullah (2012) find that the role of DPRD in the budgeting process is not always in line with the interests of parties it represents. This means that some members of the DPRD have a tendency to behave opportunistic in implementing its function in the budgeting process. Therefore, legislator involvement in decision-making of the budget is not always clean from the interests and moral hazards. Rios *et al.* (2014; 2015) explained about the importance and the risk of budgetary oversight to be done by the parliament or legislature.

The budgeting process is paramount because it becomes the basis for the implementation of the development programs and public services (Abdullah, 2012). According to Reuben (1993), the essence of the budgeting process is how to allocate limited resources to meet the needs of the various functions of government, namely: The economy, politics, social, law and

administration, as based by the approval from the parliament. Budgeting includes financial plan in the form of revenue resources and how to allocate it into the local spending, which can be done after obtaining the approval from the parliament and set out by the prevailing laws and regulations.

The tendency of the regions to make changes to the budget at the time toward the end of the current budget year walk (after September) is one of the problems why the budgeting process appears to be ineffective in solving the problems in society and government (Muda, 2017). The local government makes changes in the budget after he knew the results of audits of Local Government Financial Report (LKPD) for the previous year by waiting for "confidence" about the performance of last year and the remaining budget that can be used in the current year. This indicates that the concentration of budget changes only on the adjustment of administrative and less consider the substantial aspect of the causes of the changes and the impact that may be obtained when such changes are done earlier (Abdullah, 2017).

According to the Forrester (1991), the decisions in the budgeting process are affected by many factors including political, economic and technology factors, but the impact of the influence was not known until realized factually. Because of the existence of the annual budget period, assumed as standard time-frame government budgeting (Forrester and Mullins, 1992), then in its implementation must be dynamic and flexible, without sacrificing control and accountability (Pitsvada, 1983). The uncertainty has the impact towards the decisions in business and government (Cornia *et al.*, 2004).

Draver and Pitsvada (in Forrester and Mullins at, 1992) stated that the budget changes become a way for legislator, executive, and bureaucrats to adjust the agenda of each party. In the end, there is always a consensus to be achieved. Therefore, any policy, direction and strategy in the budgeting process always turn to be a competition of power, where each party seeks to fulfill its interests (self-interest), consequently, it often sets aside and sacrifices the public interest (Abdullah, 2012). The discussion process and the announcement of the budget changes are relatively kept away from public observation, so that it contains a relatively large agency issues (Abdullah and Nazry, 2014). The arrangement of the local budget (APBD) is conducted by keeping on some principles. First, expenditures budgeting must be supported by the existence of certainty for the availability of adequate revenues. As the main components of the local revenues, massive revenue will determine the amount of expenditure allocation. The influence of the revenue towards expenditures is still a debate because of the type of the revenue itself does not automatically allocated to fund the specific expenditures (earmark). Second, the determination of the programs and activities must be based on the achieved realization of the previous year budget. The practice of the medium-term expenditure framework (MTEF) requires any expenses to have relevance between the inter-period and inter-generations. *Third*, good integration between the allocation that is operational and expenditure for the procurement of capital goods.

Some earlier studies found that the changes in the budget were caused by the changes in the source of the local revenues, namely the local own revenue (PAD) (Marzalita *et al.*, 2015; Muda, 2017; Erlina *et al.*, 2018), the sharing transfer (DBH), and the previous year fund balance (SiLPA) (Abdullah and Rona, 2014; Martunis *et al.*, 2014). Anessi-Pessina *et al.* (2012) and Forrester and Mullins at (1992) stated that the factor of politic, social, economy and policy of the government authorities have become prominent factors in the rebudgeting. This research analyzed whether the variants of revenue variance and expenditure variance can affect the budget changes by using the legislature size as a moderation variable.

## 2. Literature review

### 2.1. Agency Problems in Public Budgeting

The process of formulating of public budgeting involves many stakeholders who have different interests and priorities. LeLoup (2002) introduces the theory of budget to explore the history of the theory of budget since incrementalism phase (1950s and 1960s) until the transition phase (1970 until the early 1990s), which was marked with the existence of the conflict between the legislative and executive during the economic crisis. In the mid-1990s, it had appeared "new paradigm", which gave attention on the environment of political and economic, policy, the nature and the scope of the budgeting process, characteristics of budgeting process, main actors, budget reform and the relationship between the legislative and executive.

The current politics phenomenon in Indonesia in the form of local autonomy and fiscal decentralization has brought great changes in responding to the state finances. The vesting of authority to the local government (Pemda) to control and manage their own government affairs has brought an implication in the existence of the authority delegation between the parties (stakeholders) associated with the local budgeting process, which are the most important components in the local financial management (Halim and Abdullah, 2006).

Melkers and Willoughby (in Rhee, 2009) mentioned that in the concept of performance- based budgeting, the budget is a tool used to award or sanction an institution which is based on the achievements of the performance of programs being run.

One of the important reasons why the government adopts the performance- based budgeting process is the promise that the practice in the formulation of the budget "shall apply" to determine whether a work program is appropriate to be proposed, accordingly such budget shall increase. Public Budgeting is very complex and not just reflects the relationship of the legislative and executive (Abdullah, 2012). Lauth (in Khan, 2002:13) explained the existence of the principle of separation of powers and decision-making in the public sector budgeting. Budget is part of an accountability mechanism in the government to the people who always want to know how the government uses their money (Rubin, 1993). So, a budget reflects the relationship between the wishes of the people and the result achieved by the government in the effort to fulfill the wishes. The difference between the interests of the decision makers of budget will be centered on a consensus that is specified in the form of the determination of budget (Abdullah, 2012). Mueller and Pereira (Abdullah, 2012) stated that the budget allocation is an instrument of democracy where elected governments (the legislative and executive) build a relationship that is dynamic between voter preference/community preference under the policy for the distribution of public resources.

Mauro (1998) found the existence of corruption in government expenditures and indicates that the budget decision is not always in accordance with public interests. Budgeting as a result of compromise (Wildavsky, 1992; Cothran, 1993). Budgeting involving various actors with different interests and purposes, the competition between institutions that leads to political strategy (Rubin, 1993). According to Axelrod (1995), the agency head arranges various strategies and tactics to face the skeptical, including the budget objectors at the level of the government and legislative that interested with the expenditures allocation. In the past few years, more legislatures play an important role in the budgeting process (Posner & Park 2007; Schick 2001). The legislative has the authority to approve the proposed budget, which is called the local regulation design on the local budget (APBD) and has the authority to propose changes to the revenue and expenditure in the Local Budget Plan (Erlina *et al.*, 2017). Legislative position which is very strong based on the Law No.22 of 1999 opening space for the abuse of power by members of the Parliament in the discussion and determination of this local budget (Abdullah, 2012).

Narayan and Narayan (2006) explained the expenditures-revenue relationships in governments. In the event of deficit of expenditures budget, it can be avoided by implementing policies that stimulate government revenues. The second reason states that two-way causality against the decision of the government revenue which has been made independently can cause a higher budget deficit, causing the government budget to rise more quickly than government revenue.

Costello *et al.* (2012) stated that local government can make a shift towards the spending into the next budget year if its activities cannot be funded in the current budget. But this is not always practicable. The activities are done in the current year as being "foundation", then, to become "basis" in the determination of the budget for the next year. The study of Abdullah (2012) found that the local parliament (DPRD) has the tendency to be opportunistic for the proposed changes in the target of the local own source revenue (PAD) to then be used in financing the increased expenditure allocation proposed in the discussion of local budget plan. The increased expenditures plan proposed by DPRD turns to contain the agency issues, where changes are used for the fulfillment of self-interest of the board members.

Local government financial report itself is a form of accountability for the implementation of the budget which contains information about the scale of the budget after the changes, realization during one year budget and the differences between the two which is called the difference or *variances* (see Article 31 of Law No. 17 of 2003 on State Finance and article 7 of the Government Regulation No. 58 of 2005 about Local Financial Management). The legislative as an institution to monitor the executive has not yet been able to perform its function with good. A monitoring of the legislative tends to be not systematic and not comprehensive (Rasdianto *et al.*, 2014; Muda and Rafiki, 2014; Dalimunthe *et al.*, 2015; Rasdianto and Muda, 2014; Muda *et al.*, 2015; Yahya *et al.*, 2017; Badaruddin *et al.*, 2017; Azlina *et al.*, 2017). The evaluation of the agencies and programs to tackle done sporadic and only focused on the question of small and narrow and not using the right methodology (Lyons and Thomas, 1982).

## 2.2. The Local Budget Changes

The budget changes (rebudgeting) is become an important factor in the management of the local government performance (Forrester and Mullins, 1992). They stated that the rebudgeting reflects what is done by the government to revise and update the budget that is being implemented in one fiscal year. As a part of annual budgeting, rebudgeting is a tool for the local government to be able to meet many and varied objectives and sometimes in the contrary to the concepts of budgeting, including continuity, control, accountability, flexibility, and predictability (Wildavsky, 1988).

The changes can occur due to the development in the implementation of the budget that is not in accordance with the general policy that has been determined beforehand, so that must be done budget shift between organizational unit, inter

activities, and between the type of expenditures, and the situation that cause budget surplus in the previous year must be used as the source of financing in the current budget year (Darise, 2008). The budget changes are not required to be done, even often referred to as "the death bell for the annual budget" (Wildavsky, 1988). The initial budget is a take-off point for making adjustments in later days with the assumption of the existence of a sustainable process. This means that the rebudgeting is related with a commitment that is made to relate the two different times (Wildavsky, 1988).

Politically, because a budget must be specified under the prevailing laws and regulations, adjustments to the local budget associated with the development and/or changes in the situation, are discussed between DPRD and local government, especially in the framework of estimation of budget changes in the related budget year/fiscal. Article 154 of Regulation of the Minister of Home Affairs No. 13 of 2006 stating that the budget changes is made when (1) the occurring development is not in accordance with the assumptions and budget policy (2) the leading situation forces for the budget shift between organizational unit, inter activities and the type of expenditures.

In addition, in a state of emergency, the local government can also perform expenditures to finance activities which are not yet available to the budget, which is then proposed in the draft budget changes and/or conveyed in the Report of Budget Realization of the current year for the implementation which must be stipulated in the local regulations concerning the budget plan and change. Local Budget changes are proposed after a report on budget realization in the first semester and can only be done 1 (one) times in 1 (one) budget year, except in extraordinary circumstances. This extraordinary situation is a condition that causes the estimation of acceptance and/or the expenses in the local budget increase or decrease greater than 50%. While according to Hye and Jalil (2010), the relationship of revenues and expenditures is *directional*.

### 2.3. The Budget Variance: Revenues and Expenditures

#### 2.3.1. Revenue Variance

Revenue Budget is an amount of estimated revenues to be realized in the form of cash inflow by the local government on a specific budget year. Budget target is usually determined in an amount assured that can be realized that does not risk on the failure of the implementation of activities that will be funded by such revenues (fiscal stress). In the implementation of the budget, the amount of this estimated budget is not the same with the actual value or realized amount, by which resulting in a difference called as variance.

The concept of principal-agent relationship explains that the revenue target proposed by the agent tends to be lower than the potential (slack). Slack is a space for the agents to achieve its preference, as the achievement or performance measured by transcends of the target (Smith and Bertozzi, 1998). Revenue slack is related to the revenue variance. The larger the budget slack, then the budget variance will be higher (Halim, 2001). This positive relationship implicates on the effectiveness and efficiency of the budget so that the determination of the revenue targets became a critical issue that always discussed. The great revenue variance indicates the poor revenue forecast.

#### 2.3.2. Expenditure Variance

Expenditure variance occurs when expenditure target is not achieved at the time of its realization, not otherwise. The number of the maximum allocation that has been specified is not realized fully shows two possible conditions, namely (1) the existence of savings or efficiency and/or (2) the activity is not completed. Simply, expenditures variance is divided into two, namely variance for routine expenditure or operational and capital expenditure or development. The greater the revenue variance, then more poorly accurate the forecasts of resources needs, so many important activities can't be carried out because the resources have been over allocated for other activities.

The operational or routine expenditure budget is provided budget to finance the activities in operational nature and carried out continuously, which is intended to keep the weakness of the wheels of government and keep the results of development. The existence of a delegated authority to local government by central government is for any matters both in administrative and local public service manners, causing the increased routine expenditure in local government budget. Routine expenditure on prioritized function optimization and everyday tasks of the local officers. Improvement of the proposed routine expenditure in each budget year must be followed by the improvement of the quality of the service and the welfare of the community. The routine expenditure plan must have been able to apply performance-based budgeting approach, making it easier for the analysis and evaluation of the relationship between the needs with the results and benefits obtained.

Development expenditure is intended for capital/finance the process of the provision of facilities, infrastructure and other assets that can be used by local government in a few budget years which are used to perform the operations and function of its services. Changes in the capital expenditure budget are very important and strategic and related to the aspect of

image building on decision-makers and politicians. Therefore, implicitly, expenditures variance is a form of bias in the budgeting process (Isaksen, 2005; Jones and Euske, 1991; Larkey and Smith, 1989; Meyers, 1989).

#### 2.4. The Legislative and Local Budgeting

The local parliament, namely DPRD, has budget function related to local public financial management. Budget function means DPRD conduct analysis and discussion with the executive (local government) over the local budget proposals through a budget committee (badan anggaran/Banggar). Banggar tasks were regulated by Government Regulation Number 16 of 2010.

Lienert (2013) stated that the legislature plays an important role in the discussion and budget supervision (*budgetary oversight*). If legislature is not active in decision-making of the budget and fiscal policy will be decided by the government over the politician expert's advice that is not selected through the general election. If some strong accountability mechanisms are not available in government, then there is a risk that the budget policy will reflect the desire for the elite bureaucracy. Thus the active engagement members of parliament in the budget process are a reality in a democracy. In addition, legislature preference shall enable a focus in the maximizing of expenditure budget to the electorates. Both result in deficit bias in public budgeting (Lienert, 2013).

Legislatur power in the budgeting process of debate since long time (Wildavsky, 1988). According to the Wehner (2010), many economists and public financial practitioners who assume that the legislature fiscal interfere with the process of drafting a budget (fiscally dangerous) and suggested to restricted authority, while strengthening the legislative institution is a reality in the eyes of the legislative institutional researchers and community empowerment activist (Allen, 2011).

One of the main function of legislator is to oversee the activities of government work unit (Lyons and Thomas, 1982). This is done to ensure that what was appropriate or not with that has been assigned. Furthermore, is to ensure the achievement of targets that have been determined. However, often legislatures have short term horizon in making fiscal policy (Lienert, 2013). In a country where the members have great power in the change of budget, the parliament tends to make changes that can increase or decrease the revenue, worsening the fiscal position and raise the public debt.

#### 2.5. The influence of the Revenue Variance and Expenditures Variance of Budget Changes

The budget adjustment is an activity that is done regularly by the local government every year. Expenditure changes are the most important changes in the budget components (Forrester and Mullins, 1992). The budget changes are made to adjust between the target and the allocation with the latest developments in the field due to the change in the assumption that cause the need for the change estimates of the acceptance and spending to a predefined target can be achieved as expected (Bland and Rubin, 1997; Dougherty *et al.*, 2003; Forrester and Mullins, 1992). Change on each component of Local Budget has its different background and different reasons (Abdullah and Nazry, 2014; Abdullah *et al.* 2015).

Revenue variance is part of the total budget variance arising from the difference between the actual and expected revenue. The revenue variance reflects the difference between expected cash inflow with the actual cash inflow in one budget period. Usually, the revenue variance is marked positive, where the actual value is greater than its prediction value, so that the local government can avoid fiscal stress condition. Fiscal stress is a condition where the local government is not able to reach the revenue targets, meanwhile have the obligation to pay all expenditure and other expenses that have been specified in the budget. Budget variance can be known for its size after the budget has been realized entirely. Ideally, all revenue targets can be realized, and it can even be exceeded. This is due to the mark-down or under-estimated in the determination of the revenue target, especially for reasons of moral hazard attached to him an agent. This revenue variance shows the ineffectiveness of the accuracy in targeting the budget during the process of budget drafting. When raises the revenue has been done, then excess on the specified target will be the revenue variance.

Expenditure variance sets aside funds when the realization of expenditure is under the target or the budget. Technically, expenditure realization cannot exceed the budget as it is deemed as the administrative violation when the spending accountability is done for specific expenditures which have not been specified in the budget post of Local Budget. When the realized expenditures are the same with the budget, then expenditures variance is zero.

Expenditure variance can be sources from 3 (three) conditions, namely: (1) the activities which are already completed/output has been reached, but expenditures allocation has not been used entirely. This means that occurs in the implementation of efficiency activities; (2) the activity is not or not yet implemented; and (3) some activities have already been carried out and some expenditure have been realized/paid. The condition (1) and (2) leave in the form of stand-by funds, while the condition (3) leaves the tied fund or can only be used to finance the activities which have not yet finished (labeled activities).

In the beginning of following budget year/fiscal year, revenue variance and expenditures variance of the previous year could not be used unless the expenditure variance comes from activities that have been carried out partly on the previous budget year (activities brought forward). For the remaining budget or variance of the last year can be used in the current year, namely by defining the source of the real revenue and plan to use it in the expenditures, it must be done a budget revisions (rebudgeting). Rebudgeting can accommodate public interests as well as political interests.

Changes to the local government budget in Indonesia caused by several factors, for example, the exceeding projection of local revenue, or unrealized allocation of local expenditure (Abdullah, 2013). The budget performance for the previous budget year usually becomes the basis to create a budget policy in the next year. This can be seen from the use of the remaining budget for the previous year (SILPA) as predictors in calculating the expenditures in the current year (Abdullah and Rona, 2014, Marzalita *et al.*, 2014, Martunis *et al.*, 2015). Because the budget variance is indicator of the budget performance of the previous year, then variance can be used as predictors for changes in the next year budget.

The hypothesis that will be tested to find out the influence of the revenue variance and expenditures variance on the change of the budget is:

$H_{1a}$ : *Expenditures variance affects the changes in the budgeting.*

$H_{1b}$ : *Revenue variance affects the change in the budgeting.*

## 2.6. The Influence of the Legislature Size to Change of the Budget

In addition to the accuracy in expenditures forecast, budget changes can occur due to accommodation of the interests of the decision maker who is a public officials elected by people to seat in parliament. Members of the Parliament are the people who run through the political parties to be selected directly by the voter through the mechanism of the general election which is free, direct and confidential. When to promote him, a potential legislator campaign is open to the public by offering some of the promise will be fulfilled when already sitting as members of parliament. After sitting as members of parliament, a legislator will try to repay the people by how to allocate the resources for the fulfillment of its proposed constituents, even though the cost is covered by many people (Abdullah, 2012).

According to Dobell and Ulrich (2002) there are three legislature roles in budgeting, which represents the interests of the public to strengthen the function of the government and monitor the activities and the performance of the government. This means that the legislatures actually have a significant influence in the policy making, including in the allocation of resources in the budget. Alesina and Perotti (1999) list 5 (five) forms of the relationship between the legislative and executive in the budgeting process, namely: (A) agreed legislative or executive juridical as budget initiator; (b) determine the extent to which the level or the legislative and executive can revise the proposed budget for one of the parties; (c) levels of rejection of a proposed budget; (d) levels to *veto* that can be owned by the executives; and (e) levels the extent to which the executive and/or legislative can perform a revision to the budget during the year walk.

Samuels (2000) stated there are two possible changes that can be done by the legislative election against the budget proposal submitted by the executive, namely: First, changing the amount of the budget and the second, alter spending distribution/expenditure in the budget. However, rules like this may not apply in all countries, namely legislative is entitled to change budget proposal submitted by the executive. The asymmetry of information between the legislative and executive about the plan of the programs and activities that will be conducted, especially in budget allocation and expected performance of the programs and activities, cause differences between the legislative and executive preferences over the allocation of resources into the budget.

$H_2$ : *Legislature size affects changes the budget.*

## 2.7. The Influence of the Legislature Size on the Relationship between the Revenue Variance and Expenditures Variance with Budget Changes

The legislative has the authority to approve the proposed budget, which is called the design of the local regulations about the local budget (APBD) and have the authority to propose changes to the revenue and expenditure in the design of the Local Budget. Legislative plays an active role in the formulation and policy discussion and announcement of the budget as a legal product (called local regulation). In the discussion of the budget the legislative and executive make agreements achieved through the process of bargaining chip before the budget is defined as a product of the law (local regulation). Rated budget as reference for executives to carry out their activity in the provision of services to the public and one reference for the legislative election to carry out the functions of supervision and assessment of executive performance through accountability report of local heads (Abdullah, 2011). Accountability and transparency can be awakening since the process of drafting the budget when the mechanisms of good governance are applied in the local governments (Carlitz,

2013). The formulation of the budget policy includes all the components of the local budget, namely revenue, expenditures and financing. For legislature, revenue policy will determine the freedom in policy-making for its expenditures. Information about the certainty of how and when revenue can be allocated is very important because the use of public funds must follow the mechanism that has been determined. But how much will be left (as) variants and where the remaining should be used must be well considered.

When the revenue variance appears, then, indeed, there are additional funds that are ready to freely allocated (back) in the budget. The competition will happen when such free funds cannot be divided in a fair or proportional. The disbursement of funds like this sometimes is overlooked by the community. A member of parliament prefers free funds from exceeding revenue target than the funds derived from the expenditure savings. Based on explanation, then the hypothesis that will be tested is:

*H<sub>2</sub>: Legislature Size affects on the relationship between revenue variance and expenditures variance with Budget changes.*

### 3. Methodology of research

#### 3.1. Samples and Data

The Data used in this research were originated from the local regulations or qanun about the local budget. The sample was selected using *purposive sampling*, namely sampling with the criteria: (1) local government that the data available on the internet; (2) data available for the complete accountability report of the local budget for the two budget years. Based on the criteria, the samples obtained consisted of 23 regencies/cities in the province of Aceh 14 regencies/cities in Java.

#### 3.2. Operationalization of Research Variable

The variables in this research consists of changes in the Budget (PAB) as dependent variables (Y), the revenue variance (VP) as independent variables (X<sub>1</sub>) and expenditure variance (VB) as independent variables (X<sub>2</sub>), and the Legislature Size (BL) as a moderation variables (M<sub>1</sub>). The definition and measurement of each variable is:

a. The Revenue Variance (VP) describes the accuracy in the determination of the revenue target, illustrated from the difference between realization and budget. This variable is measured with the ratio of VP against the budget after the changes. VP data obtained from the local government financial reports that have been audited by BPK (Supreme Audit Agency) to budget year 2014 or there is a lag of one year (*t-1*) of the independent variables (PAB).

b. Expenditures Variance (VB) is the difference between the targeted expenditures with the realization that describes the accuracy of the calculation of the needs of the resources in order to carry out the functions of the local government. This variable is measured using the ratio of the difference in ceiling and realization with the budget after the changes. VB data obtained from the local government financial reports that have been audited by BPK (Supreme Audit Agency) to budget year 2014 or there is a lag of one year (*t-1*) from independent variables (PAB).

c. *Legislature Size* (BL) or massive legislature reflects the strength of political institutions representatives in influencing the budget allocation in the budget. LS is measured using the number of members of the Parliament regency/city which is divided into 3 (three) groups, namely small (if the number of members of the council of 20-30 people, given codes 1), moderate (if the number of members of the council of 31-35 people, given codes 2), and large (if the number of members of the council of >35 people, given codes 3).

d. Changes to the Budget (PAB), the adjustment of the budget that is done by the local government after the mid-current year. This variable is measured by the difference between revised budget and initial budget divided by the initial budget. The data obtained from the local regulations of regency/city (Perda) which can be downloaded from the internet for budget year 2015.

#### 3.3. Analysis Model and Hypothesis Testing

This research was aimed to test the hypothesis using the Multiple Linier Regression model. According to Hartono (2004), testing securities of moderation and main effect can be done with a method called multiple regression analysis institutes. The model of this research can be described as follows:

$$PAB = a + b_1VP + b_2VB + e \quad (1)$$

$$PAB = a + b_1VP + b_2VB + b_3 BL + e \quad (2)$$

$$PAB = a + b_1VP + b_2VB + b_3 BL + b_4 VP*BL + b_5 VB*BL + e \quad (3)$$

Where: PAB is changes the budget (PAB) as a dependent variable, revenue variance (VP), and expenditures variance (VB) as a dependent variable, and legislature size (BL) as moderation variable.

#### 4. Results and discussions

The linier regression models resulted from data analysis presented at Table 1 below:

Table 1. The Linier Regression Models

<b>A Panel: regression without moderation</b>						
PAB = 0.946 – 12.131VP – 0.271VB + e						
T-value	14.649		-5.997	-3.376		
Sig. The value	0.000		0.000*	0.002*		
R/R <sup>2</sup> /Adj.R <sup>2</sup>	0.736/0.542/0.516					
F-value/Sig.	20.105/0.000					
<b>The panel B: regression without moderation: Legislature Size as IV</b>						
PAB = 1.219 – 8.734VP – 0.210VB – 0.149BL + e						
T-value	6.121		-2.833	-2.333	-1.443	
Sig. The value	0.000		0.008*	0.026*	0.158	
R/R <sup>2</sup> /Adj.R <sup>2</sup>	0.754/0.569/0.530					
F-value/Sig.	14.524/0.000					
<b>The panel C: regression without moderation: Legislature Size as MV</b>						
PAB = 1.6209 + 3.940VP – 3.482VB – 0.220BL – 6.447VP*BL + 1.063VB*BL+e						
T-value	3.916	0.702	-1.125	-1.345	-2.548	1.026
Sig. The value	0.000	0.488	0.269	0.188	0.016*	0.313
R/R <sup>2</sup> /Adj.R <sup>2</sup>	0.812/0.659/0.604					
F-value/Sig.	11.967/0.000					
Note: *Significantly on α=5%.						

Source: Data Processed (2017).

Data Processing using the software SPSS produced 3 (three) regression models, as shown in Table 1. The explanation for the models was as follows:

A Panel regression equation is the basic linier test the influence of the Revenue Variance (VP) and Expenditures Variance (VB) to the changes in the Budget (PAB). The test results showed that the VP and VB, both together and on their own, affected PAB. In its own, VP and VB negatively affected PAB. The value of correlation coefficient (R) was 0,736 and coefficient determination (R<sup>2</sup>) was 0,542. This regression model can be used (fit) because it had the value of F (20,105) was lower than the level of α=5% (Muda *et al.*, 2018).

B Panel is a model that include Legislature Size variable (BL) as a dependent variable. The result showed that the value of R and R<sup>2</sup> increased from 0,736 and 0,542 to 0,754 and 0,569. This regression model can be used to predict PAB with predictor in-lag one year based on the scale of the value of F of 14,524 and significance value of F was 0,000, or less than 5% (Muda *et al.*, 2018). The variables VP and VB negatively affected PAB. Both variables were smaller than 5 percent or α=0.05. The higher the value of VP and VB, which means the remaining budget (SiLPA) brought forward to the current budget year war larger in amount, then changes in the budget will be must smaller.

The C Panel is presented a regression model that includes the variables LS as moderating variable. The results showed that when the LS variable was interacted with VP Variable, then this variable significantly affected PAB variable. The effect of VP variable can be seen as the tendency of local government using funds from the previous year budget to pay the activities in the current year. Revenue variance was "remaining funds" from last year that could be used in the next year. The exceeding revenue target for one budget year means the increase of the capacity of local government to finance the program/activities in the next year. But the negative sign showed that the changes in the value of the VP were in contrary to PAB. In the other side, the interaction of LS with VB statistically did not affect PAB. The measurement for VB variable in this research used the logic that the difference in the budget and the realization was the remaining balance of funds at the end of a budget period that will also be used in next year after being allocated in Local Budget.

In general, the influence LS as a moderating variable can be seen from:

1. The value of the correlation coefficient ( $R$ ) and coefficient determination ( $R^2$ ) that going to be greater when the LS variable was inserted both as predictors and as moderator.
2. The direction of negative effect. This showed that the revenue variance ( $VP$ ) and expenditure variance ( $VB$ ) in the last year had negative effect on the change of expenditures.
3. The VL Variable was sensitive to the source of revenue which was able to fund the changes in the form of the additional local budget.

## 5. Conclusions

The conclusions that can be taken from the results of this research are:

1. The political factor is very important in the budgeting process. Members of DPRD have a role in the decision making process for the allocation of the resources in the budget changes (PAB).
2. This research contributes about the need to put the variable of *legislature size* in budgeting model in term of local government.
3. Revenue variance has a negative effect on the change of expenditures, both without and with interacts with legislature size variable.

This research has some limitations, including:

1. Using a small number of samples, only 37 districts of the city in Aceh and the island of Java. The use of more samples and observations usually will give a better result.
2. Not using the criteria in the selection of samples and the measurement of the research variables. This is due to the limitations of reference or previous studies related to this budget change, especially for Indonesian context.
3. This research defines the budget changes only on the components of the local budget called as expenditures; it did not include two other components, namely revenue and financing.

Some of the recommendations that can be given for the next research are:

1. Expand the scope of the sample and the observation/data.
2. Add a new variable which allegedly related to the changes in the budget, namely the state budget and the financial budget.
3. Conduct the comparison between the areas, for example Java-bali with Sumatra, Kalimantan and Papua. The difference in the source of local revenue usually can distinguish the behavior in the management of local expenditure.

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