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Factors Affecting Employee Expenditures in Provincial Governments in Indonesia

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ABSTRACT

The study on the factors influencing personnel expenditures was conducted using linear regression on panel data with Eviews 13 software. The study sample consisted of 34 of the 38 provincial governments in Indonesia, selected through purposive sampling based on specific criteria. Secondary data, in the form of budget execution reports (LRA), were obtained from official sources at the Supreme Audit Agency of the Republic of Indonesia (BPK RI). The results of the study indicate that local government revenue and special allocations have a positive and significant effect on salary expenditures, whereas general allocations and revenue sharing do not have a significant effect. Overall, 98.57% of the variation in personnel expenditures can be explained by the independent variables in this study, as indicated by the adjusted R-squared value of 0.985733.

A. INTRODUCTION

As a unitary state, Indonesia implements the concept of regional autonomy to improve the effectiveness of governance. According to Law No. 23 of 2014, regional autonomy refers to the rights, authorities, and obligations of a region to regulate and manage its own administrative affairs and the interests of its residents within the framework of the Unitary State of the Republic of Indonesia. This policy aims to encourage the independence of local governments in managing governmental affairs optimally and to improve the efficiency of regional resource management (Rahmawati & Hendaris, 2025). The implementation of regional autonomy is reflected in regional financial management, as set forth in the Regional Revenue and Expenditure Budget (APBD). In this context, regional expenditures serve as the primary instrument used to fund government affairs and public services in order to improve the welfare of the community (Law No. 23 of 2014; Government Regulation No. 12 of 2019).

Regional autonomy is the granting of authority to regions to manage their resources independently in order to achieve efficiency in public services (Andriyani et al., 2020:133). Autonomy is measured by a region's ability to finance its own expenditures through Local Original Revenue (PAD). Disparities in fiscal capacity among regions lead to gaps in financial capacity; in such cases, the central government provides transfer funds to local governments, known as equalization funds. Equalization funds consist of the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue-Sharing Fund (DBH) to ensure equity and sustainability in governance across regions.

Funding sources must be managed optimally to avoid creating imbalances in the structure of local government spending. Law No. 1 of 2022 on Financial Relations Between the Central Government and Local Governments (HKPD Law) requires local governments to limit personnel expenditures to a maximum of 30% of total APBD expenditures in order to strengthen local financial management. Although this policy has begun to be implemented,

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there are still several regions where personnel expenditures exceed 30%. The high proportion of personnel expenditures reflects suboptimal budget control amid the implementation of the 30% cap mandated by the UU HKPD. This situation is influenced by the policy on the appointment of Government Employees with Work Agreements (PPPK), which indirectly increases the burden of local personnel expenditures. Limited fiscal conditions have the potential to create significant budgetary pressure, raising concerns about possible workforce adjustments, including the risk of recruitment restrictions or layoffs for PPPK, particularly part-time PPPK.

Based on data obtained from the Supreme Audit Agency of the Republic of Indonesia (BPK RI), the average ratio of personnel expenditures to total regional expenditures across all provinces in Indonesia shows that several provinces exceed the 30% limit of total APBD expenditures. Provinces with average personnel expenditures exceeding the 30% limit include West Sumatra at 36%, Bangka Belitung Islands at 34%, Bengkulu at 38%, North Sulawesi at 36%, South Sulawesi at 37%, Southeast Sulawesi at 35%, Gorontalo at 36%, West Sulawesi at 34%, and Maluku at 35%. This situation indicates that these regions are also likely to face greater budgetary pressures, particularly in funding PPPK employees.

Another finding indicates that there are still several provinces in Indonesia that have not optimized their personnel expenditures, as evidenced by the proportion of personnel expenditures that is well below the 30% maximum limit mandated by the HKPD Law. Some provinces with relatively low levels of personnel expenditure include West Java and Banten at 19%, East Kalimantan at 15%, Papua at 20%, and West Papua at 10%. This situation reflects differences in budget management, spending needs, and fiscal capacity across regions, which affect local governments' ability to allocate expenditures (Rahmawati et al., 2023). These differences in percentages indicate that the implementation of policies restricting personnel expenditures has not yet been optimal or uniform across all regions of Indonesia. Further analysis is needed to identify the factors influencing the allocation of personnel expenditures, so that local financial management policies can be optimized more effectively. The following graph shows the percentage of personnel expenditure realization by provincial governments in Indonesia.

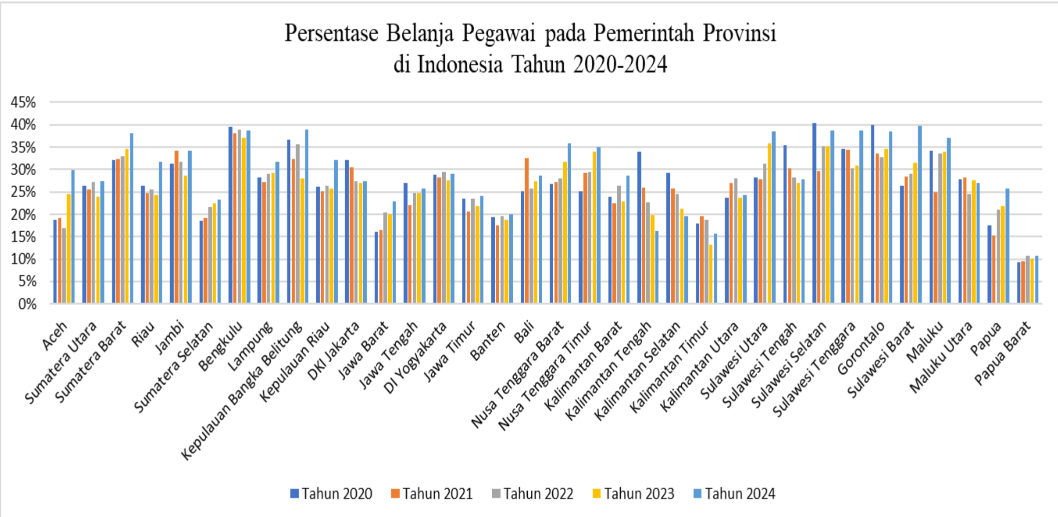

Figure Average Expenditures of Provincial Government Employees in Indonesia, 2020–2024
Source: BPK RI, processed data (2026)

Based on data obtained from the Supreme Audit Agency of the Republic of Indonesia (BPK RI), it can be concluded that personnel expenditures in several provincial governments in Indonesia have fluctuated significantly from year to year. In 2020, the lowest expenditure was recorded in West Papua Province at 9%, while the highest reached 40% in Bengkulu, South Sulawesi, and Gorontalo. In 2021–2022, West Papua remained the lowest at 10–11%,

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while Bengkulu consistently held the highest position at 39%. In 2023, the lowest realization occurred in East Kalimantan at 13%, and the highest in Bengkulu at 37%. In 2024, West Papua had the lowest rate at 11%, while West Sulawesi had the highest, reaching 40%.

A local government's ability to manage personnel expenditures is determined by its financial capacity. This capacity is reflected in local fiscal policy—that is, the region's ability to generate, manage, and utilize revenue sources, whether from the central government or local own-source revenue (PAD), to finance government operations. PAD is a revenue source derived from the region's own economic potential and serves as a key indicator of the region's level of fiscal autonomy. The higher the PAD, the greater the flexibility local governments have in allocating their budgets, including for personnel expenditures. Regions with high PAD tend to have greater capacity to finance civil service needs, such as salaries, allowances, and supplementary income. Regions with low PAD will face limitations in optimally meeting personnel expenditure needs. This phenomenon indicates a relationship between PAD capacity and the allocation of personnel expenditures in each region. Research by Akbar et al. (2016) and Aulia & Sari (2023) states that Local Own-Source Revenue (PAD) has a significant effect on personnel expenditures, indicating that an increase in PAD will be followed by an increase in the allocation of personnel expenditures.

The need to increase local government spending cannot rely solely on local revenue (PAD). Transfer funds, such as equalization funds, are essentially used to meet spending needs. As equalization fund receipts increase, it is expected that spending allocations will also increase. The higher the amount of equalization funds received, the greater the level of financial dependence on the central government. The transfer of funds to local governments is intended to help them meet their expenditure needs, including personnel expenses at the local level. The limitations of local revenue in funding all development needs mean that provincial governments remain heavily dependent on equalization funds from the central government. These equalization funds—which include general allocation funds, special allocation funds, and revenue-sharing funds—are designed to reduce fiscal disparities between regions.

The General Allocation Fund (DAU) plays a strategic role as an instrument for equalizing fiscal capacity among regions. The DAU is a block grant, so its use is relatively flexible and can be allocated to various regional expenditure needs, including personnel expenses. The DAU is provided to bridge the gap between a region's fiscal needs and its fiscal capacity. Therefore, the larger the DAU received by a region, the greater the fiscal space available to the local government to finance operational expenditures, particularly personnel expenses. This explains why the DAU tends to have a positive impact on personnel expenses, given its unrestricted nature and its frequent use to fund routine expenditures. This is supported by research by Faradila (2024), who found that DAU has a significant effect on personnel expenditures, as well as by Napitupulu & Malau (2021), who found that DAU has a significant effect on local government expenditures.

Revenue-Sharing Funds (DBH) are funds derived from central government revenue that are distributed to local governments based on a specific percentage, whether from taxes or natural resources. DBH reflects the level of a region's contribution to national revenue, so regions with high economic potential tend to receive larger DBH allocations. An increase in DBH will strengthen local fiscal capacity and provide additional flexibility for local governments in allocating budgets, including for personnel expenditures. However, because DBH is highly dependent on fluctuations in national revenue and the performance of specific economic sectors, its impact on personnel expenditures tends to be unstable and depends on macroeconomic conditions as well as regional characteristics. Research by Akbar et al. (2016) shows that DBH has a significant effect on personnel expenditures. The results indicate that the larger the DBH received by local governments, the greater the tendency for local governments to allocate funds toward personnel expenditures.

Unlike the General Allocation Fund (DAU) and the Revenue-Sharing Fund (DBH), the Special Allocation Fund (DAK) is a fund allocated to finance specific activities that are national priorities and are earmarked (their use has been predetermined). DAK is generally used to

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finance infrastructure development, education, health, and other priority sectors, so its scope of use for personnel expenditures is very limited. An increase in DAK does not directly increase personnel expenditures but rather encourages an increase in capital expenditures and other public expenditures. Research conducted by Akbar et al. (2016) indicates that DAK has a significant impact on personnel expenditures. The findings show that although DAK is earmarked for specific purposes, its implementation at the regional level still triggers an increase in human resource needs to support operational activities, thereby contributing to an increase in personnel expenditure allocations.

A study on personnel expenditures conducted by Akbar et al. (2016) found that Local Own-Source Revenue (PAD), Revenue-Sharing Funds (DBH), and Special Allocation Funds (DAK) have a positive and significant effect on personnel expenditures, whereas General Allocation Funds (DAU) have no effect on personnel expenditures in South Sumatra Province. This differs from the findings of Faradila (2024), who stated that Local Own-Source Revenue (PAD) and General Allocation Funds (DAU) have a positive and significant effect on personnel expenditures, whereas Revenue-Sharing Funds (DBH) and Special Allocation Funds (DAK) have no effect on personnel expenditures in East Java Province. However, research findings by Prasetyo (2014) and Aulia & Sari (2023) indicate that the General Allocation Fund has no effect on personnel expenditures. These differing findings suggest inconsistencies in the research results that need to be re-examined, particularly regarding personnel expenditures in provincial governments across Indonesia. Based on the above discussion, a study titled "The Effect of Local Original Revenue and Equalization Funds on Personnel Expenditures in Provincial Governments in Indonesia" will be conducted.

B. THEORETICAL STUDY

Agency Theory

Agency theory was first introduced by Jensen and Meckling in 1976. This theory explains the interaction between principals and agents. According to Ghozali (2020:86), agency theory provides an explanation of the collaboration between principals (owners) and agents (managers). This theory is applied to understand the process of budget formulation and management in Indonesian local governments.

Personnel Expenditures

Pursuant to Government Regulation No. 12 of 2019 on Local Financial Management, personnel expenditures include funds allocated for the remuneration of regional heads, deputy regional heads, chairs and members of the Regional People's Representative Council (DPRD), as well as other local government officials and employees in accordance with applicable regulations.

Local Original Revenue

Law No. 1 of 2022 on Financial Relations between the Central Government and Local Governments defines Local Government Revenue (PAD) as revenue derived from local taxes, local levies, revenue from the management of separate local government assets, and other legitimate sources of revenue in accordance with applicable regulations. Law No. 28 of 2009 defines Local Government Revenue (PAD) as the financial resources of local governments derived from their respective territories.

General Allocation Fund

Under Law No. 1 of 2022, the General Allocation Fund (DAU) is one component of the Regional Payment Transfers (TKD), intended to reduce disparities in financial capacity and public services among regions. The General Allocation Fund is a general transfer payment provided to all regencies and cities to bridge the gap between their financial capacity and needs. These funds are distributed according to a formula based on specific principles, whereby poorer and less developed regions generally receive more than wealthier regions.

Revenue-Sharing Funds

Under Law No. 1 of 2022 on Financial Relations Between the Central Government and Regions, Revenue-Sharing Funds—hereinafter referred to as DBH—are defined as the portion of TKD allocated based on a specific percentage of revenue in the State Budget (APBN) as well as specific performance indicators. This is a highly effective fiscal policy governing the Central Region and future regions. Furthermore, no region is neglected, even if there are negative externalities resulting from conflict and/or ineffective internal redistribution.

Special Allocation Fund

Under Law No. 1 of 2022, the Special Allocation Fund (hereinafter referred to as DAK) is defined as a portion of the Regional Transfer Funds (TKD), which is provided to finance specific national priority programs, activities, and/or measures and to support the delivery of public services, with the use of these funds determined by the government.

C. RESEARCH METHODS

This study employs a quantitative method using secondary data obtained from Local Government Financial Reports (LKPD) for the years 2020–2024, sourced from the E-PPID website of the Supreme Audit Agency of the Republic of Indonesia (BPK RI). The study covers all 34 provinces in Indonesia. There are two variables: independent and dependent variables. The independent variables in this study are Local Original Revenue, General Allocation Funds, Revenue-Sharing Funds, and Special Allocation Funds, while the dependent variable is Personnel Expenditures. A total of 170 samples were used in this study, with a population consisting of 34 provinces multiplied by the five-year budget period for provincial governments in Indonesia. In this study, the Economic Views (E-Views) 13 software was used to perform the procedures for panel data analysis.

Table of Operational Definitions of Variables

No	Variables	Operationalization of Variables	Variable Indicators	Data Sources	Measurement Scales
1	Personnel Expenditures (Y)	Personnel expenditures are a portion of the regional budget specifically allocated to fund salaries or allowances for local government employees (Government Regulation No. 12 of 2019).	Total Actual Personnel Expenditures	Budget Implementation Report for 2020–2024	Ratio
2	Local Original Revenue (X_1)	Local revenue consists of local taxes and fees, proceeds from the management of segregated local assets, and other lawful local revenue (Law of the Republic of Indonesia No. 1 of 2022).	Total Realized Local Original Revenue	Budget Implementation Report for 2020–2025	Ratio
3	General Allocation Fund (X_2)	The General Allocation Fund is a form of fiscal transfer to local governments designed to reduce disparities in local financial capacity while ensuring the equitable distribution of public services (Law of the Republic of Indonesia No. 1 of 2022).	Total Disbursement of the General Allocation Fund	Budget Disbursement Report for 2020–2025	Ratio

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No	Variables	Operationalization of Variables	Variable Indicators	Data Sources	Measurement Scales
4	Revenue-Sharing Funds (X_3)	Revenue-Sharing Funds are defined as part of the TKD instruments allocated to producing regions to minimize disparities in financial capacity among regions (Law of the Republic of Indonesia No. 1 of 2022).	Total Revenue-Sharing Funds Disbursed	Budget Implementation Report for 2020–2025	Ratio
5	Special Allocation Fund (X_4)	The Special Allocation Fund is defined as a component of the Regional Transfer Fund (TKD), specifically allocated to support the funding of various programs, priority activities, and specific policies at the regional level (Law of the Republic of Indonesia No. 1 of 2022).	Total Special Allocation Fund Disbursement	Budget Disbursement Report for 2020–2025	Ratio

D. RESULTS AND DISCUSSION

Results of the Descriptive Analysis

Descriptive Statistics Table

Date: 06/07/26 Time: 20:04
Sample: 2020 2024

	Y	X1	X2	X3	X4
Mean	28.23078	28.57300	27.51467	26.85086	27.65511
Median	28.10513	28.47691	27.99276	26.83749	27.64594
Maximum	30.58544	31.55778	29.12638	30.59614	30.01856
Minimum	26.94874	26.57220	0.000000	23.51181	25.07927
Std. Dev.	0.743604	1.145857	3.734529	1.464367	0.858370
Skewness	1.005753	0.528237	-7.118082	0.097389	0.328150
Kurtosis	4.239363	2.806800	52.62333	3.018826	3.573601
Jarque-Bera	39.54042	8.170372	18878.10	0.271240	5.381555
Probability	0.000000	0.016820	0.000000	0.873175	0.067828
Sum	4799.232	4857.409	4677.494	4564.646	4701.369
Sum Sq. Dev.	93.44812	221.8950	2356.994	362.3984	124.5190
Observations	170	170	170	170	170

Source: BPK RI, processed data (2026)

Based on the table, during the 2020–2024 period, the lowest personnel expenditure was recorded in West Papua Province for the 2024 fiscal year, amounting to Rp505,462,106,906.53, while the highest was recorded in DKI Jakarta Province for the 2024 fiscal year, amounting to Rp19,190,554,701,043.00. The lowest local revenue was recorded in West Sulawesi Province for the 2020 fiscal year at Rp346,864,756,506.15, while the highest was in DKI Jakarta Province for the 2024 fiscal year at Rp50,742,019,272,748.00. The lowest General Allocation Fund was recorded in DKI Jakarta Province for the 2020–2022 period at Rp0.00, while the highest was in East Java Province for the 2024 fiscal year at Rp4,460,926,689,021.00. The lowest Revenue-Sharing Fund was in West Sulawesi Province for the 2020 fiscal year at Rp16,257,305,716.00, while the highest was in the Special Capital Region of Jakarta for the 2021 fiscal year at Rp19,396,960,594,125.00. The lowest Special Allocation Fund was in West Papua Province for the 2024 fiscal year, amounting to

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Rp77,945,390,431.00, while the highest was in West Java Province for the 2021 fiscal year, amounting to Rp10,886,719,042,417.00. The sample size was 34, with 170 units of analysis.

Model Selection
Chow Test

Table of Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	22.354205	(33,132)	0.0000
Cross-section Chi-square	320.506691	33	0.0000

Source: BPK RI, processed data (2026)

Based on the results of the data analysis, it can be seen that the probability value is 0.0000 < 0.05; therefore, the Fixed Effects Model (FEM) was selected, and the Hausman test was subsequently conducted to determine the best model.

Hausman Test

Table of Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.301800	4	0.0011

Source: BPK RI, processed data (2026)

Based on the data analysis results, the probability value was 0.0011 < 0.05; therefore, the model selected for the Hausman test was the Fixed Effects Model (FEM). The results of the Chow test and the Hausman test indicate that the best model for this study is the Fixed Effects Model (FEM).

Classical Assumption Tests

Classical assumption tests are used to determine whether there are any deviations in the research data before conducting panel data regression analysis. According to Basuki (2021:27), not all classical assumption tests need to be performed on panel data regression models. The only mandatory tests are those for multicollinearity and heteroscedasticity.

Multicollinearity Test

Table of Multicollinearity Test Results

	X1	X2	X3	X4
X1	1.000000	-0.278312	0.693594	0.740705
X2	-0.278312	1.000000	-0.323544	-0.099970
X3	0.693594	-0.323544	1.000000	0.327654
X4	0.740705	-0.099970	0.327654	1.000000

Source: BPK RI, processed data (2026)

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The results of the multicollinearity test show that none of the independent variables have a correlation greater than 0.90. Therefore, it can be concluded that multicollinearity does not exist.

Heteroscedasticity Test

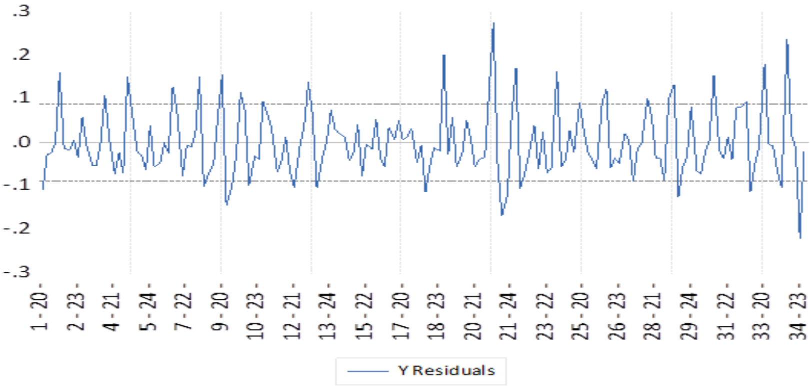

Figure showing the results of the Heteroscedasticity Test
Source: BPK RI, processed data (2026)

The results of the heteroscedasticity test show that the residual plot does not exceed the limits (500 and -500), meaning that the residual variance is constant. It can be concluded that the data is free of heteroscedasticity or passes the heteroscedasticity test (Napitupulu et al., 2021:143).

Linear Regression Analysis of Panel Data

Table of Regression Analysis Results Using the Fixed-Effects Model

Dependent Variable: Y
Method: Panel Least Squares
Date: 06/01/26 Time: 13:03
Sample: 2020 2024
Periods included: 5
Cross-sections included: 34
Total panel (balanced) observations: 170

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.211227	1.469384	6.268770	0.0000
X1	0.571806	0.054033	10.58250	0.0000
X2	-0.002725	0.003255	-0.837334	0.4039
X3	-0.021635	0.027280	-0.793070	0.4292
X4	0.120674	0.021615	5.582929	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.988857	Mean dependent var	28.23078
Adjusted R-squared	0.985733	S.D. dependent var	0.743604
S.E. of regression	0.088819	Akaike info criterion	-1.810366
Sum squared resid	1.041328	Schwarz criterion	-1.109423
Log likelihood	191.8811	Hannan-Quinn criter.	-1.525931
F-statistic	316.5837	Durbin-Watson stat	1.770534
Prob(F-statistic)	0.000000		

Source: BPK RI, processed data (2026)

The following panel data regression equation can be derived from the table:

$$Y = 9.211 + 0.571X1 – 0.002X2 – 0.021X3 + 0.021X4 + e$$

Notes:
Y = Personnel Expenditures
X1 = Local Revenue
X2 = General Allocation Funds
X3 = Revenue-Sharing Funds
X4 = Special Allocation Funds

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Hypothesis Testing
Coefficient of Determination

Table of Results for the Adjusted Coefficient of Determination (R^2) Test

R-squared	0.988857	Mean dependent var	28.23078
Adjusted R-squared	0.985733	S.D. dependent var	0.743604
S.E. of regression	0.088819	Akaike info criterion	-1.810366
Sum squared resid	1.041328	Schwarz criterion	-1.109423
Log likelihood	191.8811	Hannan-Quinn criter.	-1.525931
F-statistic	316.5837	Durbin-Watson stat	1.770534
Prob(F-statistic)	0.000000		

Source: BPK RI, processed data (2026)

The table data shows that the adjusted R-squared value is 0.985733, which means that the regression equation obtained explains 98.57% of the variation in the Y values. This implies that 100% – 98.57% = 1.43% of the variation in the Y values is attributable to factors outside the model.

Partial Test (t-Test)

Table of Results from the Partial Test (t-Test) Using a Fixed-Effects Model

Dependent Variable: Y
Method: Panel Least Squares
Date: 06/05/26 Time: 09:01
Sample: 2020 2024
Periods included: 5
Cross-sections included: 34
Total panel (balanced) observations: 170

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.211227	1.469384	6.268770	0.0000
X1	0.571806	0.054033	10.58250	0.0000
X2	-0.002725	0.003255	-0.837334	0.4039
X3	-0.021635	0.027280	-0.793070	0.4292
X4	0.120674	0.021615	5.582929	0.0000

Source: BPK RI, processed data (2026)

From the t-test results table, the following can be explained:

1. The Regional Original Revenue (X1) variable has a t-statistic value of 10.58250 with a probability of 0.0000. Since the probability is < 0.05, it can be concluded that the PAD variable has a positive and significant effect on Personnel Expenditures (Y).
2. The General Allocation Fund (X2) variable has a t-statistic value of 0.837334 with a probability of 0.4039. Since the probability is > 0.05, it can be concluded that the General Allocation Fund (DAU) variable does not have a significant effect on Personnel Expenditures (Y).
3. The Revenue Sharing Fund (X3) variable has a t-statistic value of 0.793070 with a probability of 0.4292. Since the probability is > 0.05, Therefore, it can be concluded that the DBH variable does not have a significant effect on Personnel Expenditures (Y).
4. The Special Allocation Fund (X4) variable has a t-statistic value of 5.582929 with a probability of 0.0000. Since the probability is < 0.05. Therefore, it can be concluded that the DAK variable has a positive and significant effect on Personnel Expenditures (Y).
5. The constant variable (C) has a t-statistic value of 6.268770 with a probability value of 0.0000. This indicates that the constant is significant, meaning that if all independent variables were set to zero, Personnel Expenditures would still have a value equal to that constant.

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Simultaneous Test (F-Test)

Table of Results from the Simultaneous Test (F-Test) Using a Fixed-Effects Model

R-squared	0.988857	Mean dependent var	28.23078
Adjusted R-squared	0.985733	S.D. dependent var	0.743604
S.E. of regression	0.088819	Akaike info criterion	-1.810366
Sum squared resid	1.041328	Schwarz criterion	-1.109423
Log likelihood	191.8811	Hannan-Quinn criter.	-1.525931
F-statistic	316.5837	Durbin-Watson stat	1.770534
Prob(F-statistic)	0.000000		

Source: BPK RI, processed data (2026)

The results of the statistical test on the model as a whole show a calculated F-value of 0.000000 < 0.05. It can be concluded that, overall, the variables of Local Original Revenue, General Allocation Funds, Revenue-Sharing Funds, and Special Allocation Funds have an effect on Personnel Expenditures.

Discussion

The Effect of Local Revenue on Personnel Expenditures

Based on the results of the partial test (t-test), the Local Revenue (PAD) variable (X1) has a calculated t-value of 10.58250 with a significance value of 0.0000. These values indicate that the calculated t-value is greater than the critical t-value (10.58250 > 1.97436) and the significance value is less than the 5% significance level (0.0000 < 0.05). Therefore, the Local Own-Source Revenue variable has a positive and significant effect on personnel expenditures in provincial governments in Indonesia. PAD reflects the level of regional fiscal autonomy; the higher the PAD, the greater the local government’s ability to finance its needs, including personnel expenditures.

An increase in PAD is also accompanied by an increase in personnel expenditures because they are mandatory items in the Regional Budget (APBD). This situation needs to be managed carefully, given the 30% cap on personnel expenditures as stipulated by the applicable Regional Financial Management Law (UU HKPD). Although PAD has a positive effect on personnel expenditures, its management must be carried out efficiently and proportionally so as not to reduce allocations for productive expenditures.

The Effect of General Allocation Funds on Personnel Expenditures

Based on the results of the partial test (t-test), the General Allocation Funds (DAU) variable (X2) has a calculated t-value of 0.837334 with a significance value of 0.4039. This indicates that the calculated t-value is smaller than the critical t-value (0.837334 < 1.97436) and the significance value is greater than the 5% significance level (0.4039 > 0.05). Thus, it can be concluded that the General Allocation Fund variable does not have a significant effect on personnel expenditures in provincial governments in Indonesia. As a general transfer fund, the General Allocation Fund (DAU) is not specifically allocated for personnel expenditures.

The maximum limit on personnel expenditures and the increased financial burden resulting from the PPK have led local governments to be more selective in using transfer funds. Consequently, the DAU is focused more on other, more productive needs, and thus does not have a significant impact on personnel expenditures.

The Effect of Revenue-Sharing Funds on Personnel Expenditures

Based on the results of the partial hypothesis testing (t-test), the Revenue Sharing Fund (DBH) variable (X3) has a calculated t-value of 0.793070 with a significance value of 0.4292. These results indicate that the calculated t-value is smaller than the critical t-value (0.793070 < 1.97436) and that the significance value is greater than the 5% significance level (0.4292 > 0.05). Thus, it can be concluded that the Revenue Sharing Fund variable does not have a significant effect on Personnel Expenditures in provincial governments in Indonesia. DBH is a transfer fund from the central government aimed at fiscal equalization; however, its use is not entirely under local control because it depends on the realization of state revenue.

This is influenced by the existence of a maximum limit on personnel expenditures and the fluctuating nature of DBH, making it an unsuitable source of funding for fixed expenditures. Additionally, the increased financial burden resulting from the PPPK policy has made local governments more cautious in allocating their budgets. Consequently, DBH tends to be utilized for other, more flexible needs to maintain local financial balance.

The Effect of Special Allocation Funds on Personnel Expenditures

Based on the results of the partial hypothesis test (t-test), the Special Allocation Funds (DAK) variable (X4) has a calculated t-value of 5.582929 with a significance value of 0.0000. This value indicates that the calculated t-value is greater than the critical t-value (5.582929 > 1.97436) and that the significance value is less than the 5% significance level (0.0000 < 0.05). Thus, it can be concluded that the Special Allocation Fund variable has a positive and significant effect on personnel expenditures in provincial governments in Indonesia. DAK is a specific grant intended to finance national priority programs, so its use is designated for specific sectors.

The effect of DAK on personnel expenditures occurs indirectly due to budget shifts, whereby the cost of funding certain programs is supported by DAK, thereby providing local governments with fiscal space to increase personnel expenditures. This indicates that although DAK is not allocated directly for personnel, its existence still influences the overall structure of local government expenditures.

The Effect of Local Revenue, General Allocation Funds, Revenue-Sharing Funds, and Special Allocation Funds on Personnel Expenditures

Based on the results of the simultaneous hypothesis test (F-test), the calculated F-value was 0.000000. This value is smaller than the 5% significance level (0.000000 < 0.05), so H0 is rejected and Ha is accepted. Thus, it can be concluded that the variables of Local Own-Source Revenue (PAD), General Allocation Funds (DAU), Revenue-Sharing Funds (DBH), and Special Allocation Funds (DAK) simultaneously or collectively have a significant effect on Personnel Expenditures in provincial governments in Indonesia. Therefore, the results of this study indicate that, overall, regional fiscal capacity—comprising internal revenue sources (PAD) and external revenue sources (DAU, DBH, and DAK)—plays a crucial role in determining the level of personnel expenditure allocations.

E. CONCLUSION AND SUGGESTIONS

Conclusion

Based on the discussion, the author draws the following conclusions from the findings of the analysis:

1. Internal financial strength, as reflected in local own-source revenue (PAD), has been shown to have a positive and significant impact on personnel expenditures. This indicates that an increase in PAD is linearly correlated with the strengthening of local governments' capacity to finance employee salary expenditures.
2. General Allocation Funds (DAU) do not have a significant effect on personnel expenditures. This finding confirms that DAU, as a general transfer fund, is not primarily intended to finance salary expenditures but rather aims to balance fiscal imbalances and support basic public services.
3. Revenue-Sharing Funds (DBH) do not significantly affect personnel expenditures. This indicates that DBH, which is volatile and dependent on regional potential, is not used as the primary source for financing fixed personnel expenditures.
4. The Special Allocation Fund (DAK) has a positive and significant effect on personnel expenditures. This indicates that although DAK is earmarked for specific purposes, its

existence enhances regional fiscal capacity, thereby indirectly driving an increase in personnel expenditures.

5. Simultaneously, PAD, DAU, DBH, and DAK have a significant effect on personnel expenditures. This indicates that all sources of local government revenue—whether from internal sources or central government transfers—collectively influence personnel expenditure policies. Furthermore, the Adjusted R-Squared value of 0.985733 indicates that the research model is highly effective in explaining the variation in personnel expenditures.

Suggestions

Based on the conclusions reached, the researcher offers the following recommendations:

1. Local governments are advised to continue optimizing the collection of local revenue (PAD) to reduce financial dependence on transfer funds from the central government. In addition, the management of special allocation funds (DAK) must be carried out effectively and in a targeted manner. Local governments must ensure that DAK funds are used in accordance with their original purpose so that they can contribute maximally to regional development.
2. The distribution of funds from the General Allocation Fund (DAU) and the Revenue Sharing Fund (DBH) should be prioritized to finance productive sectors. Although these two transfer instruments do not have a significant impact on the share of salary expenditures, their use must be carefully designed to drive local economic growth and improve the standard of living for the community.
3. For further research, it is recommended to expand the scope of the analysis and include other independent variables not yet considered in this model. Given that 1.4267% of the variance is attributed to external factors, it is highly recommended to include additional variables such as population size, geographic location, or the distribution of investment expenditures to reach more comprehensive conclusions.

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