

## MODERATING EFFECT OF REGIONAL ORIGINAL REVENUE ON THE INFLUENCE OF THE NUMBER OF TOURISTS ON REGIONAL REVENUE AND EXPENDITURE BUDGET

(Study in Bali Province)

I Nyoman Sutapa<sup>1</sup>, Ni Luh Putu Mita Miati<sup>2</sup>

<sup>1,2</sup>Faculty of Economics, Universitas Warmadewa (Unwar), Jl. Terompong No.24, Sumerta Kelod, Denpasar Tim., Kota Denpasar, Bali 80239, Indonesia.

*Received: September 03, 2018. Revised: October 23, 2018. Accepted: October 29, 2018*

### Abstract

*This study aims to provide empirical evidence about the effect of the number of tourists on the Regional Revenue and Expenditure Budget (APBD) with local original revenue (PAD) as moderating variable. The population in this study was at the Regency or City Government in Bali from 2008 to 2017. The testing tools used were Partial Least Square analysis - Structural Equation Modeling (PLS-SEM). The results of this study prove that the number of tourists has a significant positive effect on the APBD with PAD as moderator. The number of tourists has a positive and significant effect on PAD, PAD has a positive and significant effect on the APBD. While the direct influence between the number of tourists to the APBD is not significant*

**Keywords:** Number of tourists, PAD, APBD

### How to cite (APA 6<sup>th</sup> style)

Sutapa, I.N. & Miati, N.L.P.M. (2018). Moderating Effect of Regional Original Revenue on the Influence of the Number of Tourists on Regional Revenue and Expenditure Budget. *Journal of Accounting and Strategic Finance*, 1 (02), 79– 86

## INTRODUCTION

One of the main objectives of fiscal decentralization is the creation of regional independence. The implementation of decentralization as a manifestation of regional autonomy is expected to be able to explore the local financial resources of the local government, especially through Regional Original Income (PAD), hereinafter referred to as PAD, to finance the affairs of the region itself. If the PAD increases, the funds owned or the regional expenditure budget by the regional government will be higher and this will increase regional independence, so that the regional government will take the initiative to further explore the regional potentials that can increase economic growth (Sidik, 2002). The independence of a region can be seen from the contribution of PAD to the Regional Revenue and Expenditure Budget (APBD), hereinafter referred to as APBD. The higher the contribution, the more independent the area will be.

Bali's Regional Original Income is dominated by the tourism sector. In accordance with the statement of the Minister of Tourism Arief Yahya (Jonata, 2017) who stated that Bali contributed 40% of foreign exchange from the national tourism sector. The growth in the number of foreign and domestic tourists coming to Bali increases every year but the contribution of Regional Original Income to the budget for regional expenditure tends to decrease even though the Regional Original Income in Bali is dominant from the tourism sector. The number of tourists, the contribution of PAD to the Bali Regional Budget for the last ten years, namely the period 2008 to

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<sup>1</sup>I Nyoman Sutapa  
Email: [sutapa05@ymail.com](mailto:sutapa05@ymail.com) / Ph: +6287861877999

2017 can be seen in table 1.

**Table 1.** Number of Tourists, PAD and APBD 2008-2017

Year	Foreign	Domestic	Number of Tourist	PAD	APBD	PAD Contribution
2008	2.085.084	2.898.793	4.983.877	1.055.454.263	1.667.342.649	63%
2009	2.385.122	3.521.135	5.906.257	1.163.947.553	1.902.227.544	61%
2010	2.576.142	4.646.343	7.222.485	1.393.730.257	2.237.707.339	62%
2011	2.826.709	5.675.121	8.501.830	1.723.807.096	2.662.219.521	65%
2012	2.949.332	6.063.558	9.012.890	2.042.091.096	3.633.133.585	56%
2013	3.278.598	6.976.536	10.255.134	2.529.976.147	4.109.377.805	62%
2014	3.766.638	6.394.307	10.160.945	2.920.416.697	4.577.678.391	64%
2015	4.001.835	7.147.100	11.148.935	3.041.266.607	4.967.935.151	61%
2016	4.927.937	8.643.680	13.571.617	3.041.195.258	5.249.017.754	58%
2017	5.697.739	8.735.633	14.433.372	3.398.472.278	5.992.161.668	57%

Source, Bali Provincial Statistics Agency 2018

Based on the above phenomena in the context of regional autonomy, the ability to carry out autonomy is indicated by the significant role of PAD in financing regional expenditures, which is reflected in the contribution of PAD to the APBD. Table 1 shows that the PAD contribution to APBD is decreased over the year 2008 to 2017, from 63% to 57%. On the contrary, the number of tourist over the same years is increased, from 4,983,877 in 2008 to 14,433,327 in 2017. This study aims to investigate the effect of the number of tourists on the Regional Revenue and Expenditure Budget (APBD) with Regional Original Income (PAD) as moderator.

Regional Original Income (PAD) is a source of regional revenue originating from sources within the region itself, which is collected based on applicable laws. It demands the region to increase its ability to explore and manage sources of regional income, especially those originating from PAD (Pertiwi, 2014). According to Law No. 28 of 2009, namely regional financial resources extracted from the region concerned, which consist of the results of regional taxes, regional levies, the results of separated regional wealth management and other legitimate income.

Tourism is an activity of an organization that provides goods and services that benefit from tourism which includes supporting facilities and infrastructure, natural resources, individual services and government, intermediaries such as travel agents. Bull (1991) states that the tourism sector is often called the tourism industry. Marpaung (2002) states that the tourism sector is all community activities related to tourists. From several definitions of tourism, the development of tourism can be seen from several indicators such as the indicator of the growth in the number of tourist visits both domestic and foreign tourists that can influence the PAD and APBD.

Li, et al. (2016) studied whether regional inequality is influenced by international and domestic tourism, both globally or locally. Their research results showed that the development of tourism has a positive effect in reducing the inequality in regional income. They also empirically found that Local development of tourism has more contribution to regional income than global tourism. According to the growth pole theory (Sinha, 2018), the expanding industries located in an area, such as urban or regional area, will further develop economic activity through its zone of influence. The area then become a pole of growth. Since tourism is one of industry that develop rapidly, it will influence the regional income. Therefore, the first hypothesis is as follows:

### **H1: Number of tourists has a positive effect on Regional Original Income (PAD)**

The Regional Revenue and Expenditure Budget (APBD) is a means or tool for carrying out real and responsible regional autonomy and gives the contents and meaning of the

responsibilities of the Regional Government because the APBD describes all the policies of the Regional Government. Regional budgets are used as a tool for determining income and expenditure, assisting decision making and development planning, authorizing future expenditures, sources of developing standard measures for performance evaluation, tools for motivating employees, and coordination tools for all activities of various work units.

According to Law Number 25 of 1999 concerning Financial Balance between the Central and Regional Governments, it is explained that the Regional Revenue and Expenditure Budget is a regional annual financial plan stipulated based on Regional Regulations concerning the Regional Expenditure Budget. Furthermore, according to Permendagri Number 13 of 2006, that Regional Revenue and Expenditure Budget is the basis of regional financial management within a period of 1 (one) fiscal year as from January 1 to December 31. As according to Law No. 17 of 2003 article 1 point 8 concerning State Finance, Regional Revenue and Expenditure Budget is an annual financial plan of the regional government approved by the Regional People's Legislative Assembly. The APBD structure is a unit consisting of Regional Revenues and Regional Expenditures.

Tourism is a leading industry in Bali province. According to Marketeers (2013), Bali Province, does not have a large source of income except from the tourism sector. In Bali currently 650,000 people depend on the tourism sector. Bali Province plays a role in contributing 40% of national foreign exchange (around Rp.45 Trillion). This number indicates that tourism has a significant role in APBD. Therefore, the second hypothesis is as follows:

**H2: The number of tourists has a positive effect on the Regional Revenue and Expenditure Budget (APBD)**

Decentralization is a mechanism for administering government that involves the pattern of relations between the national government and local government. The aim of regional autonomy is to free the central government from unnecessary burdens in dealing with domestic affairs, so that the central government has the opportunity to learn, understand and respond to various global trends and take advantage of them. The government only concentrates on the formulation of strategic macro national policies. The policy of fiscal decentralization as stated in Law No. 33 of 2004 concerning Financial Balance Between the Central Government and the Central Government, aiming at the first, to harmonize with the fiscal sustainable policy. Second, minimize inequality between the central government and regional governments (vertical imbalance). Third, correcting inequality between regions in financial capacity (horizontal imbalance). Fourth, increasing accountability, effectiveness and efficiency in order to improve the performance of local governments. Fifth, improve the quality of service to the community, and sixth increase community participation in decision making in the public sector (democracy).

Karo-Karo (2014) proves that PAD has significant influence on APBD. APBD is an important picture or benchmark for the success of an area in increasing the potential of regional reconstruction. That is, if the regional economy experiences growth, it will have a positive impact on increasing regional revenues, especially those originating from local revenue (PAD). Based on Law No. 32 of 2004 article 157 states that regional income sources consist of: local original income, balancing funds, and other legitimate regional income. Regional Original Income is all regional revenues originating from regional economic sources. The Regional Revenue group includes regional taxes, regional retributions, the results of separated regional wealth management, and other legitimate Regional Revenues. Therefore, the third and fourth hypothesis are as follows:

**H3: Regional Original Income (PAD) has a positive effect on the Regional Revenue and Expenditure Budget (APBD)**

**H4: The number of tourists has a positive effect on the Regional Revenue and Expenditure Budget (APBD) with Regional Original Income (PAD) as Moderator**

## RESEARCH METHODS

### Method of collecting data

Data is secondary data obtained from accessing and downloading data on the number of tourist arrivals to Bali, Regional Original Income (PAD), and Regional Revenue and Expenditure Budget through the official website of the Bali Province Central Bureau of Statistics (BPS) <https://bali.bps.go.id> for the period 2008 to 2017. The population in this study was the Provincial Government of Bali.

### Operational Definition of Variables

#### *Number of Tourists*

The number of tourists is the number of tourists visiting Bali, both domestic and foreign. data was obtained through the results of the Bali Province BPS census regarding the number of tourist visits.

#### *Regional Original Income (PAD)*

Regional Original Income (PAD) Is a source of regional income originating from sources within the region itself. the data used is the number of PAD obtained through the results of the BPS census of the Bali Province regarding the number of PAD in Bali Province.

#### *Regional Revenue and Expenditure Budget (APBD)*

The Regional Revenue and Expenditure Budget is a means or tool for carrying out real and responsible regional autonomy. The data used is the amount of the APBD obtained through the results of the BPS census of the Bali Province regarding the total APBD of the Province of Bali

### Data analysis technique

The data analysis technique in this study was using Partial Least Square analysis - Structural Equation Modeling (PLS-SEM). An alternative method for structural equation models to simultaneously test the relationship between latent constructs in linear / non linear relationships both reflective and formative using warp software PLS 6.0

### The Coefficient of Determination (R<sup>2</sup>)

The Determination Coefficient (R<sup>2</sup>) basically measures how far the model's ability to explain the variation of the dependent variable. The coefficient of determination is between zero and one. A small R<sup>2</sup> value means that the ability of independent variables to explain the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable. In general, the coefficient of determination for cross data (cross section) is relatively low because of the large variation between each observation, while for time series data (time series) has a high coefficient of determination (Ghozali, 2011).

### Hypothesis Testing

In general, the explanatory research method is a method approach using PLS. Hypothesis test result can be seen from the value of t-statistics and probability values. To test the hypothesis using statistical values, for alpha 5% the t-statistical value used is 1.96. So that the acceptance or rejection criteria of the hypothesis are H<sub>a</sub> accepted and H<sub>0</sub> rejected when t-statistics > 1.96. To reject or accept the hypothesis using probability value, H<sub>a</sub> is accepted if the probability value is p < 0.05. (Hussein, 2015)

## RESULTS AND DISCUSSION

### Results

Based on the results of the study using WarpPls 6.0 software presented in Figure 1 SEM analysis, the results of the number of tourists were able to explain the variance of local revenue by 96%, the number of tourists and local revenue can explain the variance of APBD of 99%.

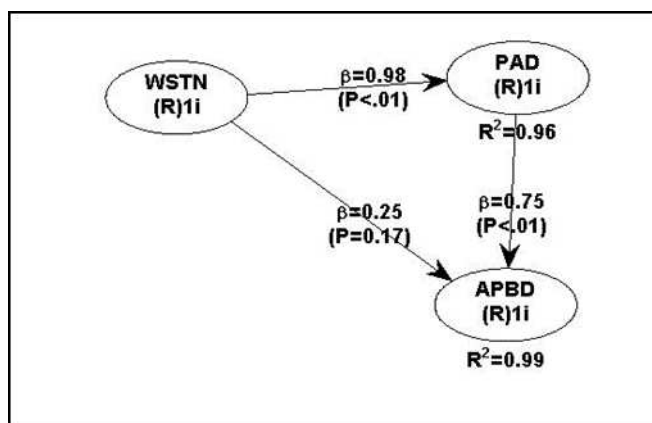


Figure 1. PLS SEM Analysis

The direct effect of the number of tourists on PAD is positive (positive path coefficient which is equal to 0.98), which means that the higher the number of tourists coming to Bali there is a tendency for PAD to increase. The influence is stated to be significant from the probability value of the path coefficient  $< 0.01$ . Since the probability value is less than 0.01, H1 is accepted.

The direct effect between the number of tourists and the APBD is positive, which is equal to 0.25, which means that the higher the number of tourists coming to Bali there is a tendency for the APBD to increase. The effect is declared insignificant from the probability value of the path coefficient  $> 0.01$ . Since the probability value is higher than 0.01, H2 is rejected

The direct effect between PAD and APBD is positive (positive path coefficient which is equal to 0.75), which means that the higher the PAD there is a tendency for APBD to increase. The effect is stated to be significant from the probability value of the path coefficient  $< 0.01$ . Since the probability value is less than 0.01, H3 is accepted

The indirect influence of the Number of Tourists on the APBD through PAD is 0.731 ( $0.98 \times 0.75$ ) (positive value). The result of Probability value is 0.001 so that the number of tourists has indirect positive effects towards APBD with PAD as moderating variable. The positive influence is statistically significant at a significant level of 5%. Based on the significant value, H4 is accepted.

### Discussion

*The number of tourists has a significant positive effect on Regional Original Income (PAD)*

The number of tourists coming to Bali will increase the Regional Original Income. The results of this study are supported by research conducted by Wijaya and Djayastra (2014), Pratiwi (2014) and Sari (2013) who found a positive and significant influence between the number of tourists and PAD. The number of tourists coming to Bali is well utilized by the local government of Bali, this can be seen from the increase in the number of tourists accompanied by the increase in PAD. According to Article 6 of Law No. 33 of 2004 paragraph 1 and 2 states that PAD is sourced from Regional Taxes, Regional Retributions, Regional-owned company products and separated results of regional property management and other legitimate regional revenue. The more and longer tourists stay in a tourist destination, the more money is spent in the tourist destination, at least for the purposes of eating, drinking and lodging while living in the area Qadarrochman (2010).

*The number of tourists has a positive and insignificant effect on the Regional Revenue and Expenditure Budget (APBD)*

Based on the results of the study show a positive effect but not significant between the number of tourists and the APBD. This result is different from the results of Suartini's research (2013) which proved that there is an influence between the number of tourists and the APBD. This result indicates the number of tourists who come can influence the APBD but the impact is not directly felt. This is because income originating from tourism taxes and retributions is allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization (Law No. 33 of 2004). The budget is a tool for accountability, management and economic policy. The budget functions to realize economic growth and stability as well as equal distribution of income in order to achieve the goals of the state. APBD is prepared in accordance with the needs of government administration and regional income capabilities.

Even though the number of tourists increases and is able to increase PAD, the Regional Budget of each region does not necessarily increase significantly as much as the income generated. The increase income will be allocated to help Regions that still have low Regional Income, because the APBD is used to decentralize the welfare of each region that has low PAD, then the income not only fixed on areas that produce high PAD.

*Regional Original Income (PAD) has a significant positive effect on the Regional Revenue and Expenditure Budget (APBD)*

Regional Original Income (PAD) has a significant positive effect on the Regional Revenue and Expenditure Budget (APBD). This result shows that when a region has a high PAD it will be able to increase the regional budget in the next period. the results of this study are supported by Karo-Karo (2014) which states that Regional Tax variables, the results of separated wealth management, and other legitimate PAD have a significant effect on Revenue in the Regional Budget.

*The number of tourists has a significant positive effect on the Regional Revenue and Expenditure Budget (APBD) with Regional Original Income (PAD) as moderator.*

In accordance with the previous discussion about the number of tourists has a significant effect on PAD and a significant positive effect between PAD and APBD, the relationship between the number of tourists will indirectly affect the APBD. It can be illustrated that the increase in the number of tourists on Bali was welcomed by the local government of Bali with the increase in PAD originating from regional taxes, levies and other local taxes. This increase in PAD will support the implementation of regional autonomy in the form of an increased regional budget (APBD).

## CONCLUSION

Four conclusion can be made from the research result: 1) the number of tourists has a significant positive effect on Regional Original Income (PAD), 2) the number of tourists has a positive but insignificant effect on the Regional Revenue and Expenditure Budget (APBD), 3) Regional Original Income (PAD) has a significant positive effect on the Regional Revenue and Expenditure Budget (APBD), and 4) the number of tourists has a significant positive effect on the Regional Revenue and Expenditure Budget (APBD) through Regional Original Income (PAD).

The empirical results of this study indicate that of four hypotheses, there is three hypotheses are supported while one is not. Hence, at least two limitations should be carefully considered. First, this study only takes data from the city districts in the province of Bali, where each province has different uniqueness and potential. Further research can develop broader data with other provinces. Second, this study only investigates the Regional Original Revenue from the tourism sector by looking at the number of tourists, in further research can add other sectors not only limited to the tourism sector.

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