THE INFLUENCE OF PROSPERITY AND FINACIAL PERFORMANCE WITH RESPECT TO EQUALIZATION FUNDS OF THE GOVERNMENT DISTRICT/CITY IN ALL SOUTHERN SUMATRA REGIONS

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Abstract - *The prosperity of the local governments will only be realized if local governments are able to generate revenue (PAD) areas of the original and does not rely on Central Government relief funds in financing the activities of local governments. This study aims to test and prove empirically the influence of prosperity and financial performance with respect to equalization funds of the Government district/city for all Southern Sumatra regions. The Data collection is from a data Report i.e. Secondary Budget Realization of the district/city government for all south Sumatra regions in 2012 which is in www.djpk.depkeu.go.id. The prosperity of local government is measured by the amount of equalization funds measureable by generate revenue (PAD) areas or pendapatan asli daerah (PAD), with the amount of funds for Public allocation of Funds, the Results and the allocation of Special Funds, while the financial performance is measured by the ratio of the independence, the ratio of effectiveness, and efficiency ratios. The analysis used was qualitative analysis through descriptive statistics and quantitative analysis through multiple linear regression, hypothesis testing and coefficient of determination. The test results showed that the prosperity of local government positive effect on the performance of the financial performance of local government and the Fund balance of negative effect on the financial performance of local government performance while simultaneously the prosperity of local governments and equalization funds the positive effect of the financial performance of local government performance.*

Keywords: Prosperity, balance fund, the financial performance of local government

1. BACKGROUND

The implementation of autonomous area which emphasizes at regency and town marking with the transfer of a number of authorities from central government to local government. This matter affirms that local government has their authority to determine and improve their people's prosperity. Prosperity constitutes the capability of fulfiling the need of primary, secondary, and tertiary as well. Prosperity of local government will only be implemented if the local government are able to reach generate revenue areas (PAD) which is high and are not dependent on the relief fund of central government. Dependency on central government shows that local government authonomy is low. Its lowness of the local government authonomy shows the lower performance of local government finance because in financing operational activities, the local government are dependent on the central government (Kusumawardani, 2012)

In fact, the local or city government in Indonesia is still dependent on the relief fund of central government. It is seen in the report evaluation of revenue plan of state expense for regency or city in 2012 submitted by Directorate General of Financial Balance, Treasury Departement of the Republic of Indonesia. It mentions that the fund of balance still predominates the source of earnings of local government that is around 6,41% or equal to Rp. 369,908 trillion, while generate revenue areas (PAD) is equal to 9,88% or equal to Rp. 47,815 trillion and other legal generate revenue is 13,2% or equal to Rp. 66, 414 trillion. The condition also happened in regency/town government in Southern Sumatra regions. Based on report submitted by Directorate

General of Finacial Balance, Treasury Departement of the Republic of Indonesia for revenue plan of state expence of 2012 toward regency/town government in Southern Sumatra showing that financial balance still predominates the source of local government's revenue that is around 90,69% or equal to Rp. 33,554 trillion while the generate revenue area (PAD) is only 6,8% or equal to Rp. 2,541 trillion and other legal regional revenue is 2, 44% or equal to Rp. 901,312 billion.

The measurement of performance is one of ways used by local government in achieving good government (Halacmi, 2005). It also represents the important componentbecause there will be feedback for the plan which have been implemented (Chow, Ganulin, Haddad, and Wiliamson, 1998). Wood (1998) states that function from performance measurement can explain about (1) Evaluationof how the program runs; (2) comparison instrument of services which are given; (3) public communication means.

In Indonesia, research concerning performance of local government finance was conducted by Hamzah (2009) which talked about local government finance in East Java. Its result indicates that the finance performance effects positively to jobless and poverty. The other research was conducted by Sumarjo (2010). It talks about influence of measure of local government, prosperity, legislation, leverage, and financial balance to local government finance in Indonesia.

Its result indicates that the finance performance had an effect positively and it shows that measure of local government, legislation, leverage, and financial balance influence positively and significantly to the

finance performance of local government in Indonesia while prosperity does not influence to the finance performance of local government in Indonesia.

Kusumawardani (2012) indicates that measure of local government and legislation have an effect on the performance of finance of local government in Indonesia, while prosperity and leverage do not have an effect on performance of finance of local government in Indonesia.

However, the results of research conducted by Manik (2013) show that prosperity and equalization funds directly influence the economic growth of local government in Indonesia , where economic growth is also a form of improved financial performance (Tambunan , 2001) .

2. LITERATURE REVIEW
2.1 LOCAL GOVERNMENT FINANCE REPORT ORLAPORAN KEUANGAN PEMERINTAH DAERAH (LKPD)

Statement of Government Accounting Standards (SPAP) No. 1 illustrates the definition of the financial statements as a structured report on the financial position and transactions undertaken by a reporting entity .Financial statements become a means used to demonstrate the performance achievement and implementation of the accountability function in one entity (Choiriyah , 2010) . Therefore, disclosure of information in the financial statements should be sufficient to be used as a basis in making careful and appropriate decision (Almilia and Retrinasari , 2007) . Seeing the benefits of the financial statements , the central government issued a regulation regarding the obligations of President and Governor / Regent / Mayor to submit reports accountability of revenue plan of state expences (APBN) or revenue plan of local government expence (APBD) in the form of financial statements set forth by Law No. 17 in 2003. Based on the PP RI No. 24, 2005 financial statements at least include :

a) Based on the PP RI No. 24, 2005, expence realization report presents revenue, expenditure, transfer , surplus/deficit, financing, the rest is more/less financing budget managed by the central/local government in one reporting period .

b) Balance showing the financial position of an entity's reporting of assets , liabilities , and equity funds on a specific date (PP No. 24 of 2005) .

c) Cash Flow Statement provides information about the source , use , changes in cash and cash equivalents for the accounting period , and the balance of cash and cash equivalents on the reporting date .

d) Notes on the Financial Statements include a narrative description or details of the numbers listed in the Budget Realization Report, Balance Sheet, and Cash Flow Statement .

2.2 LOCAL GOVERNMENT FINANCIAL PERFORMANCE

Bastian (2006) defines performance as the achievements of the organization in a certain period.

Performance is the attainment of what is planned , either by personal or organization. Research conducted Azhar (2008) reveals that performance is defined as the measured activity of an entity during a certain period as part of a measure of success in the job. Performance measurement is the process of continuous monitoring and reporting of outcomes of activities , particularly progress on the planned destination (Westin, 1998).

Great attention to the measurement of performance caused by the opinion that performance measurement can improve the efficiency , effectiveness, economimizing and productivity in the public sector organizations (Halacmi , 2005). Research conducted Mandell (1997) revealed that the measurement of performance, local governments obtain information that can improve the quality of decision-making in order to improve the service provided to the public . One of tools to measure the financial performance of local government is to carry out the ratio analysis toward revenue plan of local govenment that has been defined and implemented (Hamzah , 2009).Results of financial ratio analysis is then used to be benchmark in : (1) Assessing local financial independence in budgeting the implementation of local autonomy; (2) Measuring the effectiveness and efficiency in the realization of local revenues; (3) Measuring how far the activities of local governments are in the region to expend revenue (4) Measuring the contribution of each source of income in the formation of local revenue (5) Seeing the growth or development of the revenue and expenditure made during a specific time period. According to Halim (2007), some financial ratios that can be used to measure the financial performance of local governments are: independence ratio , the ratio of effectiveness , efficiency ratio , the ratio of the growth and activity ratios . According to Article 2 of Regulation No. 108 of 2000, parties with an interest in local government financial ratios are regional parliament , the Executive Board , investors , creditors and benefactors, Economic Analysis and Observer Regional Government, the People, the Central Government .

2.3 Prosperity

According to the General Indonesian Dictionary (2006) prosperity is the fulfillment of life such as the need for primary , secondary needs , and tertiary needs for humans. Prosperity (wealth) of local government can be expressed by the amount of revenue (Abdullah, 2004). Consideration prosperity measurements with generate revenue (PAD) is because although generate revenue (PAD) gives small contribution to Indonesia's local governments (about 1 % -16 %) , It is the only source of genuine financial originating from the region (Suhardjanto et al . , 2010)

In addition, research conducted by Adi (2006) revealed that the area has a high amount of generate revenue (PAD) which has the financial resources to organize the administration so that the quality of public services provided to the public will be better and people's prosperity will also increase .

According to Law No. 33 of 2004 on Financial Balance between Central and Local Government and Law No. 28 of 2009 on Local taxes and levies stating that the Local Generate Revenue (PAD) is a local earned income levied by local regulations in accordance with the legislation. Meanwhile, according to Mardiasmo (2002) Local Generate Revenue (PAD) is revenue which is an acquired reception area sourced local tax sector, regional retribution, and the yield of regional wealth management is separated from other legal income. Local Generate Revenue (PAD) aims to give authority to local governments to finance the implementation of regional autonomy in accordance with the potential of the area as the embodiment of decentralization are sourced from local taxes, levies,

the yield of separated wealth management area and other legitimate revenue in a region.

2.4 EQUALIZATION FUND
On Financial Balance between the Central Government and Local Government, equalization fund is a fund sourced from revenue plan of state expence of APBN allocated to the regions in order to finance the needs of the region in the implementation of decentralization. Balance Funds includes Funds or Dana Bagi Hasil (DBH), General Allocation Fund or Dana Alokasi Umum (DAU) and Special Allocation Fund or Dana Alokasi Khusus (DAK) which is fund transfer from central government to local government aiming at reducing the fiscal gap between the central government and local governments , and among local governments.

2.5 THEORETICAL FRAMEWORK
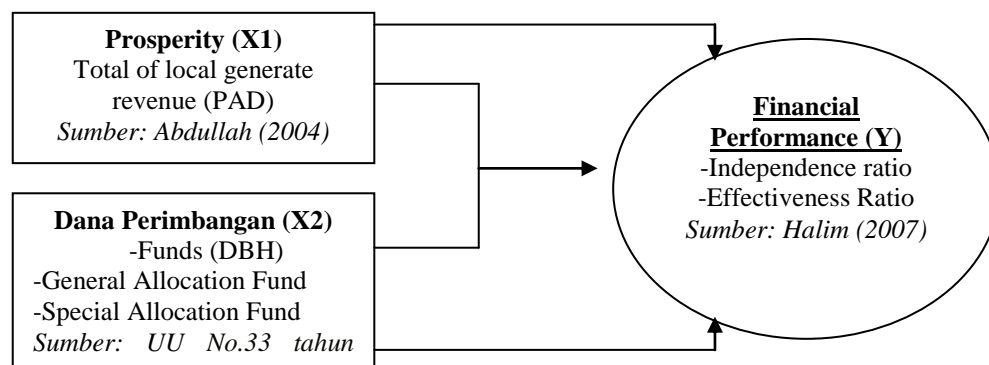
2.6 HIPOTHESIS
H1: Prosperity positively effects on the performance of Local Government Finance
H2 : Fund balance negatively affects on the performance of Local Government Finance

3 RESEARCH METHODOLOGY
3.1 THE TYPE OF RESEARCH
This type of research aims at causality research to analyse the cause and effect between the dependent and independent variables.
3.2 POPULATION AND SAMPLING TECHNIQUE
The population in this study is the region and City government in all Southern Sumatra regions including Lampung , South Sumatera , Bangka Belitung , Jambi and Bengkulu. The total population is 57 from both regions and Cities in all Southern Sumatra (DJPK RI , 2013). The determination of the number of samples in this research refers to the opinion of Arikunto (2004) which states that the measuring of the sample in the reseach is " If the subject is less than 100 , it is better taken all that the research is the study of population. Based Arikunto (2004), the samples used in this study is saturated sample, so this study is a population study. The sampling criteria are
1.   LKPD in 2012 which was audited by BPK - RI .
2.   LKPD region and City Government in all Southern Sumatra in 2012 presented have complete information to be processed.
3.3 THE TYPES AND SOURCES OF DATA

The data used in this research is secondary data , such as Budget Realization Report (LRA) in all Southern Sumatra regions in 2012 retrieved from the site - *www.djpk.depkeu.go.id*.
3.4 METHODS OF COLLECTING DATA
Collecting data in this study using the methods of documentation which is done by collecting data derived from existing documents , of the Directorate General of Financial Balance documentation, Ministry of Finance of Indonesian Republic.
3.5 VARIABLE OPERATIONAL DEFINITION AND MEASUREMENT OF PROSPERITY
Prosperity is the fulfillment of life which is material. Human needs covering the primary need, secondary needs ,and tertiary need. According to Abdullah (2004), the prosperity of local governments can be measured by the amount of revenue (PAD) . Considerations of prosperity measurements with PAD is because although the small contribution of PAD to local governments in Indonesia (around 1 % -16 %) , PAD is the only financial source which comes from those regions. (Suhardjanto et al., 2010).
Financial Balance
Financial Balance is fund which is from APBN earnings which is allocated for financing the needs of regions in the implementation of decentralization. According to Law no. 33 of 2004 about financial balance between central government and local government, it covers   Funds or Dana Bagi Hasil (DBH), General Allocation Fund or Dana Alokasi

Umum (DAU) and Special Allocation Fund or Dana Alokasi Khusus (DAK).

Finance Performance

Finance performance of local government is ability of an area to discover and manage the real finance source of area in fulfilling its needs in order to support the process of governmental system, service to society and its area development in order not to be dependent on central board and it has the facility to use fund for the sake of people in accordence with law and regulation (Susantih, 2009). According to Halim (200) local financial performance can be measured with Independence ration and effectivenenss ratio.

Local Independence Ratio

Local Independence Ratio in this research is the ability of an area to finance its governance activity, development and service to its society. According to Halim (2007) the formulation of local independence ratio is:

$$\text{Independence ratio } i = \frac{PAD\ i}{Total\ of\ regional\ revenue\ i} \times 100\%$$

Note : i = All regencies/cities in Southern Sumatra
Relation pattern between central government and local government in implementing regional authonomy can be seen in table 1

Tabel 1: Relation Pattern and local indepence level

Regional ability	Indepence (%)	Relation Pattern
Very low	0 – 25	Instuctive
Low	25 – 50	Consultative
medium	50 – 75	Participated
High	75 – 100	Delegated

 Source : SK Mendagri (the Decree of Home Affairs Minister)No. 690.900.327 of 1996 (cited in Halim, 2007)

Local Financial Effectiveness Ratio

Effectiveness Ratio describes the ability of local government in realization of generate revenue area (PAD) planned and compared with PAD target regulated. The formulation of effectiveness by Halim (2007) is:

$$\text{Effectiveness ratio } i = \frac{PAD\ Realization\ i}{PAD\ Acceptance\ Target\ i} \times 100\%$$

Note: i = All regions/cities in Southern Sumatra

Tabel 2: Effectiveness Criteria of Local Finance

% Financial Performance	Criteria
Above 100	Very effective
90 – 100	effective
80 – 90	Effective Enough
60 – 80	Less Effective
Under 60	Not Effective

Source : SK Mendagri (the Decree of Home Affairs Minister)No. 690.900.327 of 1996 (cited in Halim, 2007)

Technique Analysis

Analysis technique used in this research is qualitative and quantitative analysis. Qualitative analysis is in the form of descriptive statistic and Quantitative analysis consists of regression, doubled linear, hypothesis testing, and coefficient determination. Quantitative analysis.

4   RESULT AND DISCUSSION
4.1   DESCRIPTIVE STATISTIC

Based on the result of data processing, descriptive statistic of prosperity, financial balance and local performance government in Southern Sumatr in the year of 2012 as follows:

Tabel 3: Result of Descriptive Statistic

Explanation	Mean	Min	Max	Standard Deviation
Prosperity	54,08	5,74	518,85	83,93
Financial balance	713,91	357,93	2.310,60	350,39
Financial performance (Independence)	4,99	1,12	23,16	4,13

Source: Processed Data, 2014

Based on descriptive statistic table, it shows that average value (mean) of local government in all of southern Sumatra regions of 2012 equals to Rp. 54,00 billion. The value of high prosperity from Palembang government of South Sumatra Province is around Rp. 518,59 billion and the value of lowest prosperity from the local government of middle Bengkulu, province of Bengkulu is around Rp. 5,74 milyar.

If it is compared with the total of regional revenue, the value of prosperity (PAD) of local government in Southern Sumatra in 2012 is still low (under 25 %). It is because local government in Southern Sumatra through its regional regulation is not able to increase local taxes revenue, local levies and performance of BUMD as a source of PAD.

Mean value of financial balance of local government in southern Sumatra in 2012 is around Rp. 13,91 billion. the value of the highest financial balance is from regional government of Musi Banyuasin government, South Sumatra with 2, 310 trillion and the lowest financial balance is from the local government of Bengkulu, Province of Bengkulu amounted to 35,93 billion. It shows that fund source of local government in Southern Sumatra is obtained more from financial balance which is transfer of central government than from PAD as a source of generate revenue areas. The average value (mean) of local financial independence government in southern Sumatra in 2012 amounted to 4.99 % . Value of the highest financial independence is from Palembang government of South Sumatra Province of 23.16 % and the lowest financial independence is oned Tulang Bawang Regency of West Lampung in Lampung

province by 1.12 % . This shows that the local government's financial independence in southern Sumatra is very low and at the same time it shows that the local government in southern Sumatra is still heavily dependent on central government fund in financing the activities and local government expenditure. Based on the Decree of the Minister of Home Affairs No. 690 900 327 1996 on Guidelines for Assessment and Financial Performance, saying that financial independence is very low if the value of financial self-sufficiency ratio of 0% - 25 % .

4.2   DOUBLE LINEAR REGRESSION

Based on the results of data processing, it is obtained regression coefficients for the variables of wealth and equalization funds as follows:

Tabel 4 : Regression Coefficients

information	Unstandardized Coefficients
	B
Constant	50.853
Prosperity	2.422E-5
Financial Balance	-1.780E-6

Source: Processed Data, 2014

Based on the regression coefficient table, it can be formulated double linear regression equation as follows:

$$KK = 50.853 + 2.422K - 1.780DP$$

The regression equation can be interpreted that prosperity has a positive influence on the financial performance , while the financial balance has a negative effect on the financial performance Prosperity of positive influence on the financial performance can be seen in the regression coefficient (beta) is +2422 . Prosperity of regression coefficient values indicate that each increase of 1% to prosperity will be followed by improvement of the financial performance of 2.42% assuming other variables considerded constant and vice versa. Meanwhile the negative effects of equalization funds on financial performance can be seen in the regression coefficients (beta) of -1780. Regression coefficient value of equalization funds showed that every increase of the balance funds of 1% will be followed by a decrease in financial performance of 1.78 % assuming other variables held constant (unchanged) and vice-versa.

4.3   HYPOTHESIS TESTING

Testing the hypothesis in this study uses t_statistik test at 95% confidence level or ($\alpha = 5$ %) . Based on the results of data processing, p_value was obtained for each hypothesis testing as follows.

Tabel 5: The Result of Hypothesis Testing (α=5%)

	Hypothesis	P_value	Result	Conclusion
H_1	*Prosperity effects positively on financial performance*	0,001	0,001<0,05	Hypothesis Proven / accepted
H_2	*Financial balance negatively effects financial performance*	0,041	0,041<0,05	Hypothesis Proven/accepted

Sumber: Data Diolah, 2014

Prosperity effects positively on financial performance

Hypothesis testing results show that the prosperity has a positive effect on the financial performance of the District/city Government in southern Sumatra. The results are similar with the research results of and Firiayanti and Pratolo (2009) and Manik (2013) which state that prosperity have a positive effect on financial performance. Prosperity influences positively on the financial performance of local governments due to the prosperity of the local government and reflects the value of PAD , as stated by Abdullah (2004) that the prosperity of the local government can be expressed by generate revenue areas or PAD . The value of PAD indicates a high autonomy of local governments, so that local governments can finance its own activities and regional expenditure without having much to rely on external sources of income. Prosperity of local governments expressed by the amount of PAD also reflects both the success (effectiveness) of local governments realizing the PAD of the target set and the success of local governments in providing an understanding of the importance of revenue for local governments. Thus , a large of generate revenue area (PAD) would describe the prosperity of local

governments as well as describe the good financial performance of local governments.

Financial Balance Negatively Effects Financial Performance

Hypothesis testing results indicate that theFinancial balance negatively affects the financial performance of the District/City government in southern Sumatra . The results are similar with Kusumawardani's results of research (2012) which states that the financial balance has no effect on the financial performance of local governments in Indonesia.

Negative influence on the financial balance financial performance due to the equalization fund is a fund sourced from APBN allocated to the regions to finance the needs of the region in the implementation of decentralization. Financial balance includes revenue-sharing (DBH) , General Allocation Fund (DAU) and Special Allocation Fund (DAK) which is the transfer of funds from central government to local government aimed at reducing the fiscal gap between the central government and local governments , and among local governments. According to Julitawati (2012) ,equalization funds received by local governments from the central government will show stronger local governments relying on the central government to fulfil regional needs, so it will make

the financial performance of local governments declined.

4.4 COEFFICIENT OF DETERMINATION

Based on the results of data processing (Appendix 2), it is obtained that R_Square value to influence the prosperity and financial balance on the financial performance are as follows:

Tabel 6: Coefficient of Determination (*R_Square*)

Information	R_Square
The effect of prosperity and financial balance on the financial performance	0,256

Source : processed Data, 2014

As seen in table 6, the value of R_Square is 0.256 or 25.6 % . It shows that the amount of donations or contributions to prosperity and financial balance to changes in the financial performance of 25.6 % while the remaining 74.4 % is influenced by other factors not examined in this study, such as regional expenditure, area, and compliance community to pay local taxes and levies.

5 CONCLUSION AND SUGGESTION

5.1 CONCLUSION

Based on the results of research and discussion, we can conclude as follows.

1. Prosperity has a positive effect on the financial performance of the District / City government in southern Sumatra . This is proved by the results of regression and hypothesis testing, where the regression coefficient indicates a positive value and the prosperity of hypothesis testing results indicate that p_value is smaller than the value of alpha.

2. Financial balance negatively affects the financial performance of the District /City Government in southern Sumatra . This is evidenced by the results of regression and hypothesis testing , where the value of the coefficient regression of equalization funds showed a negative value and hypothesis testing results indicate that p_value is smaller than the value of alpha.

5.2 SUGGESTION

Based on the research conclusions , the suggestions are proposed for the next study are:

1. Local governments should be able to increase the prosperity of the region through raised value of PAD, including by intensifying the implementation of the local taxes collection and levies as well monitoring and controling through a computerized system of taxation and levies integrated and connected by on-line. In addition, local governments can increase the value of revenue through the addition of other types of local taxes and levies which are certainly not going to cause problems in the community.

2. Use of financial balance should be clear and in the manner intended , that should really be able to provide direct benefits to society in the form of improved services and social welfare . In addition , local governments should be able to reduce its dependency on equalization funds by improving the quality and quantity of local taxes and levies as a source of local revenue.

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