

Financial Relations Between Central Government and Regional Government in Regional Autonomy

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Abstract:

Purpose:

Law Number 23 of 2014 concerning Regional Government shows a division of authority between the Central Government, Provincial Government, and City Regency Government. Mapping or classification of central and local government affairs is regulated in Article 9 to Article 26.

Methodology:

The method used in research for writing this paper is to use the type of research "Normative," namely by using secondary data. Normative Law Research is research conducted on laws and regulations related to the legislation in this paper. In addition, by conducting a literature review of related literature.

Findings:

With regional autonomy, the government in the region in running the government requires costs to take care of its household for the region to get money; a source of regional income is needed.

Implication:

The Financial Relationship between the Central Government and Regional Government has been established by Law Number 1 of 2022 concerning Financial Relations between Central and Regional Governments, which repealed Law Number 28 of 2009 concerning Regional Taxes and Regional Levies and Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments.

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INTRODUCTION

The vast geography of Indonesia, coupled with the diversity of tribes in Indonesia, certainly does not follow a centralized system of government. In order to meet the attention and provide proper development for the people in the regions, it is necessary to form a government in the regions.

According to Article 1, paragraph (1) of the 1945 Constitution, the State of Indonesia is a unitary state in the form of a Republic. This article shows us that the composition of the Republic of Indonesia is single. It means there is no state within a state, as there is a federal state.

Prior to the amendment, Article 18 of the 1945 Constitution read, "The division of Indonesian regions into large and small regions, with the form of government structure determined by law, by considering and remembering the basis of consultation in the state government system, and the rights of origin in special regions." After the amendment, Article 18 of the 1945 Constitution reads, "The Unitary State of the Republic of Indonesia is divided into provincial areas, and the provincial areas are divided into regencies and cities, each of which has a regional government, which is regulated by law." The content of Article 18 is the substance after the 2nd amendment, namely at the annual session of the People's Consultative Assembly held from August 7 to August 18, 2000. The changes made in Article 18 are:

1. Article 18, which at first just had one article. After the amendment, two new chapters were added with each verse.
2. After the amendment, Article 18 of the 1945 Constitution consisted of Article 18, which contained 7 paragraphs, Article 18 A with two paragraphs, and Article 18 B, which also collected 2 verses.

As an application of Articles 18, 18A, and 18B of the Constitution of the Republic of Indonesia Year 1945, the substance of which expressly and transparently provides recognition of the existence of regional governments (provinces and districts/cities), with the principle of Decentralization that gives birth to regional autonomy in each autonomous region.

The consequences concerning state government administration caused the entire territory of the Republic of Indonesia to be divided into provincial areas. Within provincial areas, it was divided again into regencies and cities. Each province, regency and city area is given the right of autonomy to regulate and manage the affairs and interests of its region. Meanwhile, the transfer of autonomy rights to each region must be based on law as a characteristic of a state of law (Article 1 paragraph (3) of the NRI Constitution of 1945).

Regional autonomy is autonomous regions' right, authority, and obligation to regulate and manage their own Government Affairs and the interests of local communities in the Unitary State system of the Republic of Indonesia (NKRI). The concept of regional autonomy, which constantly moves at different points of balance, affects the course of government in the regions. The difference is evident by using the concept of a pendulum that always moves symmetrically on two sides, namely the Center and the Region. In other words, at one time, the weight of power lies with the Central Government, and on other occasions, the weight of power lies with the Regional Government.

The legal politics of local government administration are currently regulated by Law Number 23 of 2014 concerning Regional Government. In the general explanation, it is said, among others, that the granting of the broadest autonomy to the Regions is carried out based on:

- a. The principle of a unitary state. In a unitary state, sovereignty exists only in the state or national government and no sovereignty in the regions. Therefore, no matter how much autonomy is granted to the Regions, the final responsibility for implementing the Regional Government will remain in the hands of the Central Government. For this reason, the Regional Government in a unitary state is a unity with the National Government.
- b. Policies created and implemented by the Regions are an integral part of national policies. The difference lies in how to utilize regional wisdom, potential, innovation, competitiveness, and creativity to achieve these national goals at the local level, which in turn will support the achievement of overall national goals.
- c. Regions are considered independent entities within a legal society and have the power to govern and control their respective areas based on the desires and concerns of their inhabitants, as long as these do not contradict the overall national legal structure and the public interest.
- d. In order to provide more expansive space for regions to regulate and take care of the lives of their citizens, the Central Government, in forming policies, must pay attention to local wisdom and vice versa Regions when forming regional policies both in the form of Regional Regulations and other policies should also pay attention to national interests. Thus, a balance will be created between synergistic national interests and still paying attention to local conditions, distinctiveness, and wisdom in the administration of the government as a whole.
- e. Government affairs handed over to the Regions come from government power in the hands of the President. The consequence of a unitary state is that the final responsibility of government rests with the President. For the implementation of Government Affairs handed over to the regions to run following national policy, the President is obliged to conduct guidance and supervise the organizers.

With Article 1 and Article 18 in the 1945 Constitution, it can be concluded that the Indonesian state is a unitary state with a Decentralization System. According to Law 23 of 2014, Decentralization is the handover of Government Affairs by the Central Government to autonomous regions based on the Principle of Autonomy. Of course, with this Decentralization, there needs to be a concrete division of tasks between the central and regional governments and the regulation of their respective financial affairs between the central government and regional governments so that regional autonomy can run effectively. There is also a need for respect for the diversity and privileges of each region. How is the division of authority between the central government and regional governments? What is the Financial Relationship Between the Central Government and the Regional Government?

This writing aims to determine the division of authority between the central and local governments and the financial relationship between the central and regional governments.

METHODS

The method used in research for writing this paper is to use the type of research "Normative," namely by using secondary data. Normative Law Research is research conducted on laws and regulations related to the legislation in this paper. In addition, by conducting a literature review of related literature.

RESULTS AND DISCUSSION

Division of Authority Between Central Government and Regional Government. Law Number 23 of 2014 concerning Regional Government shows a division of authority between the Central Government, Provincial Government, and City Regency Government. The mapping or classification of central and regional government affairs is regulated in Article 9 to Article 26, which is as follows:

- a. Absolute government affairs are Government Affairs that are entirely under the authority of the Central Government.
- b. Concurrent government affairs are Government Affairs divided between the Central and Regional Governments of provinces and districts/cities. Concurrent government affairs handed over to the Regions become the basis for implementing Regional Autonomy.
- c. General government affairs are Government Affairs, which are the authority of the President as the head of government.

These government affairs are:

- a. Absolute Government affairs, including:
 - foreign policy;
 - defense;
 - security;
 - judiciary;
 - national monetary and fiscal, and
 - religion.
- b. Concurrent Government Affairs, which become regional authorities, consist of Compulsory Government Affairs and Elective Government Affairs, which are as follows:
 - 1) Compulsory Government Affairs. Includes: Government Affairs related to Basic Services and Government Affairs not related to Basic Services. Compulsory Government Affairs related to essential services consist of:
 - education;
 - health;
 - public works and spatial arrangement;
 - public housing and residential areas;
 - peace, public order, and protection of society; and
 - social.
 - 2) Compulsory Government Affairs not related to Basic Services include:
 - workforce;
 - women's empowerment and child protection;
 - food;
 - land;
 - environment;
 - population administration and civil registration;
 - community and village empowerment;
 - population control and family planning;
 - transportation;
 - communication and informatics;
 - cooperatives, small and medium-sized enterprises;
 - investment;
 - youth and sports;
 - statistics;
 - encoding;

- culture; library; and
- archival.
- 3) Elective Government Affairs include:
 - marine and fisheries;
 - tourism;
 - agriculture;
 - forestry;
 - energy and mineral resources;
 - trade;
 - industry; and
 - transmigration.
- c. General Government Affairs General Government includes:
 - 1) Development of national vision and national resilience in order to strengthen the practice of Pancasila, the implementation of the 1945 Constitution of the Republic of Indonesia, the preservation of Bhinneka Tunggal Ika and the preservation and maintenance of the integrity of the Unitary State of the Republic of Indonesia;
 - 2) Fostering national unity and unity;
 - 3) Fostering inter-tribal and intra-tribal harmony, religious, racial, and other groups in order to realize local, regional, and national security stability;
 - 4) Handling social conflicts following the provisions of laws and regulations;
 - 5) Coordination of the implementation of tasks between government agencies in the provincial and district/city areas to solve problems that arise by taking into account the principles of democracy, human rights, equity, justice, privileges and specificities, potential and regional diversity following the provisions of laws and regulations;
 - 6) Development of democratic life based on Pancasila;
 - 7) Implementation of all Government Affairs that are not the authority of the Region and are not carried out by the Vertical Agency.

The division of concurrent government affairs between the Central and Regional Governments of Provinces and Districts/Municipalities is based on accountability, efficiency, externalities, and national strategic interests. Accountability is the accountability of the administration of a government affair determined based on its proximity to the extent, magnitude and range of impacts caused by the organizer of a government affair.

Efficiency is the administration of a government affair determined based on a comparison of the highest level of usability that can be obtained.

Externalities are the organizers of a government affair determined based on the extent, magnitude and range of impacts arising from the administration of a government affair.

National Strategic Interest is the organizer of a government affair determined based on considerations to maintain the integrity and unity of the nation, maintain state sovereignty, implementation, foreign relations, achievement of national strategy programs and other considerations regulated in the provisions of laws and regulations.

Based on these principles, the criteria for Government Affairs under the authority of the Central Government are:

- a. Government Affairs located across provincial regions or countries;
- b. Government Affairs whose users cross provincial regions or across countries;
- c. Government Affairs whose benefits or negative impacts cross provincial regions or across countries;
- d. Government affairs that use resources more efficiently if carried out by the Central Government and
- e. Government Affairs, whose role is strategic for national interests.

Furthermore, based on these principles, the criteria for Government Affairs that become the authority of provincial regions are;

- a. Government Affairs located across districts/cities;
- b. Government Affairs whose users cross districts/cities;
- c. Government affairs whose benefits or negative impacts cross districts/cities and
- d. Government Affairs, whose use of resources is more efficient if carried out by the province.

Based on this principle, the criteria for Government Affairs that become the authority of the district/city are:

- a. Government Affairs located in the regency/city area;
- b. Government Affairs whose users are in the regency/city area;
- c. Government Affairs whose benefits or negative impacts are only within the district/city area and
- d. Government Affairs, whose use of resources is more efficient if done by districts/cities. The existence of regional autonomy, which gives regions the authority to regulate their respective regions, has had both positive and negative impacts.

The positive impacts of Regional Autonomy include:

1. Socio-Cultural is More Developed. Regions can develop the socio-cultural potential of their regions to improve welfare. Among them are the development of regional arts, the development of regional food products, and the introduction of regional leading tourism.
2. Security Defense. With regional autonomy, areas that the central government cannot reach can be noticed by local governments. In addition, the community can convey its aspirations through local governments. Thus, the desire to secede or become part of the territory of another country that looks more developed can be suppressed. Regional leaders can easily manage the defense and security of their territories due to the smaller scope.
3. Regional Potential Developing. Regional potential is expected to increase regional revenue budgets and improve welfare.
4. Regional Authority over Certain Policies. Each region has its characteristics. The existence of regional autonomy makes regional governments have policies on specific policies that are based on regional conditions. Call it the Special Region of Yogyakarta, which has a typical local government system of the palace and differs from all regions in Indonesia. Nangroe Aceh Darussalam is another example of a region that implements Islamic policies or laws in its territory. This authority develops local governments and communities according to their characteristics and potential.
5. Regions Can Be More Advanced. After a region has its authority, can develop the potential of its respective regions, and the socio-culture is more advanced, the region is expected to become more advanced. More developed regions will undoubtedly support the country's development as well. With the increase in regional income, its contribution to national income also increases. Imagine if all regions in Indonesia could develop themselves. Indonesia will be better off.
6. Human resources and natural resources in the area are easier to manage. Regional governments, as the closest institutions, will be easier to detect. Once detected, its development will be easier. For example, if an area has diverse marine resources. Then, the local government will manage tourism, fisheries, Regional Autonomy, and Human Security Perspective in a Democratic State, Ubhara Jaya. Its 136 sea area borders, and so on. Only some things will be handled properly if the central government regulates everything because the tasks of the central government have become more.
7. Time Efficiency. Regional autonomy makes the country's development time more efficient. Everything that the region itself can do is directly decided and executed. If all has to go to the central government, there will be a journey for bureaucracy, starting from the bottom to the relevant agencies. It takes longer. Although immediate troubleshooting may be required, agencies at every level cater to specific fields, sub-district level courts, and sub-district level police.
8. Equitable Development. The center regulates all, and there is a possibility that some areas far from reach will be left behind. Areas with good resources may be left behind because everything the area produces is unfairly divided. Alternatively, the worst is the unfair treatment of the development of an area due to different groups or groups. Therefore, with Regional Autonomy, the possibilities mentioned are minimized. Equality of development can be further realized through the participation of local governments and their respective communities.

Furthermore, the negative impacts of regional autonomy are:

1. Poor areas or those with resources are less slowly developed than regions with potential and natural resources.
2. Natural resources in border areas between regions are prone to conflicts between regions.
3. There can be social inequality between resource-rich areas and less potent areas.

4. An excellent regional government can thrive by increasing its creativity, but a bad local government can only commit deviations without more supervision.

Financial Relationship between Central Government and Regional Government. With regional autonomy, the government in the region in running the government requires costs to take care of its household for the region to get money. A source of regional income is needed. Based on Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Government, Regional Original Revenue is regional revenue obtained from regional taxes, regional levies, segregated regional wealth management results, and other legitimate local original revenues by laws and regulations.

The direction of financial relations between the central government and local governments in the future has been determined through Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Government, which is a substitute for Law Number 33 of 2004, namely the efficient and effective allocation of national resources through transparent, accountable and fair financial relations between the central government and regional governments in order to realize equal distribution of community welfare throughout remote Unitary State of the Republic of Indonesia. The drafting of this law is not aimed at decentralization but is an effort to strengthen accountability and harmonize policies between the central and regional governments.

4 pillars underlie the preparation of this Law. The first pillar is to minimize vertical inequality between levels of government at the central, provincial, district, and city levels and horizontal inequality between local governments at the same level. For this reason, there are several improvements in policies, primarily related to Transfer to Regions (TKD), to minimize these inequalities, namely by reformulating DAU with higher precision of demand measures where DAU for each region is allocated based on Fiscal Gaps no longer adding to the Basic Allocation formula.

Furthermore, DAK is more focused on national priorities, so Regular DAK is merged into the DAU formulation. Performance-based Management of Transfer to Regions where the government can also provide fiscal incentives for Regional Governments as an appreciation to regions with good performance 2 in providing public services with specific criteria. In addition, there is a controlled and careful expansion of regional financing schemes, where it is currently possible to use the Regional Sukuk scheme, which was previously only Regional Loans and Regional Bonds. Furthermore, funding synergies across existing funding sources include APBD and Non-APBD funding synergies such as K/L Spending, SOEs/D, the Private Sector, and Cooperation with other Regional Governments.

The second pillar is to develop a local tax system by supporting a more efficient allocation of national resources. Policies formulated in strengthening the regional tax system are through harmonization of regulations while still providing support to the business world, reducing levies on compulsory services that should be the obligation of local governments by rationalizing levies from 32 to 18 services, creating a new tax base through the synergy of central taxes with regional taxes in the form of consumption, property, and natural resources. In addition, there is a regional taxation open between the Province and Regency / City as a replacement for the profit-sharing scheme and adjustment of authority in the form of Motor Vehicle Tax Oopen, Motor Vehicle Name Return Duty Oopen, and Non-Metal and Rock Mineral Tax. Some of the three types of regional taxes will not increase the burden for taxpayers but split taxpayer payments directly to the general cash account of the provincial and regency/city.

The third pillar is to encourage the improvement of the quality of spending in the regions because regional spending is funded from public money, both in the form of regional taxes and transfers from the Central Government. Therefore, it is a must to have a maximum impact on the welfare of the people in the region. To improve the quality of regional spending, this Law is directed to strengthen budgeting discipline and synergy of regional spending, performance-based TKDD management and TKDD are directed to improve the quality and quantity of public services. Regional expenditure arrangements regulated in this law include employee spending limits of a maximum of 30 percent and public service infrastructure spending limits of at least 40 percent, in addition to the obligation to fulfill other mandatory expenditures following the mandate of statutory regulations. Based on data from DJPK, APBD spending is currently dominated by employee spending, with an average of 32.4 percent. Even for some regions, there is around 50 percent, while infrastructure spending is meager; it has only reached 11.5 percent. The fulfillment of employee and infrastructure expenditures is not done all at once but gradually over five years and 3 years.

The fourth pillar is harmonizing central and regional spending to provide optimal public services while maintaining fiscal sustainability. In the HKPD Bill, a Transfer to Regions design can function as a counter-cyclical policy, aligning fiscal policy between the Central Government and Regional Government, controlling the APBD deficit, and refocusing the APBD under certain conditions. In addition, there is also a need for synergy of the Standard Chart of Accounts (BAS) so that program, activity, and output alignment can be carried out.

Alignment of central and regional fiscal policies is needed as a cooperative effort to achieve the established economic growth and development targets, and the many types of programs and activities in the regions can make regions not focus on what to do. The number of programs and activities in the regions reached 29,623 and 263,135 activities, a considerable number, allocating each small.

CONCLUSION

The government in Indonesia consists of the Central Government, Provincial Government, Regency/City Government, and Village Government. Article 18 of the 1945 Constitution is the basis for establishing Regional Government. The main consequence of regional autonomy in Indonesia is the division of government affairs between the central and regional governments. The division of government affairs will lead to the emergence of a balance of power between the central government and local governments. In Law Number 23 of 2014 concerning Regional Government, there is a division of authority between the Central Government and the Regional Government.

Government affairs are divided into absolute government affairs, concurrent government affairs, and general government affairs. Where absolute Government Affairs are created and run by the central government, Concurrent Government Affairs are divided between the Central and Regional Governments. General government affairs are made up of the central government and run by local governments.

The Financial Relationship between the Central Government and Regional Government has been established by Law Number 1 of 2022 concerning Financial Relations between Central and Regional Governments, which repealed Law Number 28 of 2009 concerning Regional Taxes and Regional Levies and Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments. This law is expected to strengthen the participation of local governments in synergy with the central government to achieve the welfare of all Indonesian people.

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