

FISCAL POLICIES & DEVELOPMENT

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Penang Forum 4 : Development and
Good Governance

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Penang

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OUTLINE

- Problem of federal – state finance
- Sources of state & local finance
- Areas of state & local expenditure
- What can state & local governments do given constraints
- Re-orienting state & local priorities

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Federal – State Finance Constraints

- ❑ Unitary rather than Federal System
- ❑ 2001-08 Penang state paid RM 26 billion to federal but received only RM 794 million (3%) in return
- ❑ State don't have taxing power except for quit rent
- ❑ Land major source of revenue
- ❑ Penang state govt owns only pockets of land; land owned by private

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Sources of Penang State Revenue

	2005	2006	2007	2008	2009	%
Quit Rent	97	101	93	110	112	30%
Land Related Non-Tax Revenue	62	75	78	119	138	37%
Dividends & Investments	31	35	38	43	38	10%
Federal transfers	77	60	73	74	67	18%
TOTAL	275	281	296	371	376	100%

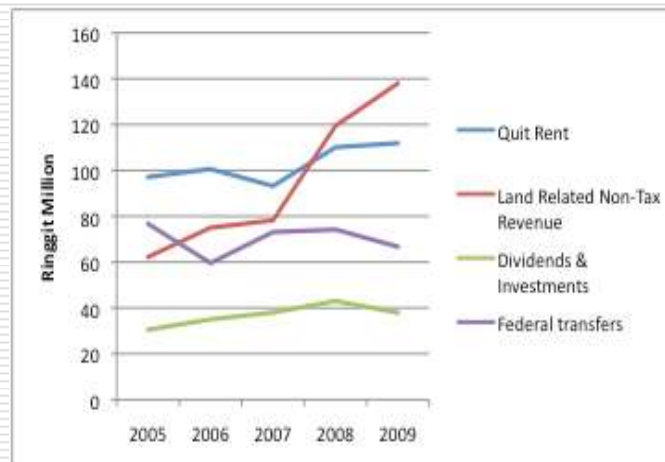
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Land Related Revenue 67% of State Revenue

- 1) Quit Rent – 27% of tot revenue
- 2) Land Transaction Fees – 5%
 - Land conversion -
 - Grant Title
- 3) Land Related Fees – 24%
 - Land application
 - Mortgage application; caveat; search fees

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Penang State Revenue – Major Categories



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Penang State Expenditure 2005 – 2009

	2005	2006	2007	2008	2009	% Total
Emoluments	64	71	77	98	101	35%
Supplies & Services	48	55	59	58	65	23%
Asset Acquisiton	10	5	2	4	6	2%
Fixed Contributions	55	101	96	106	99	34%
Total	179	233	241	268	289	100%

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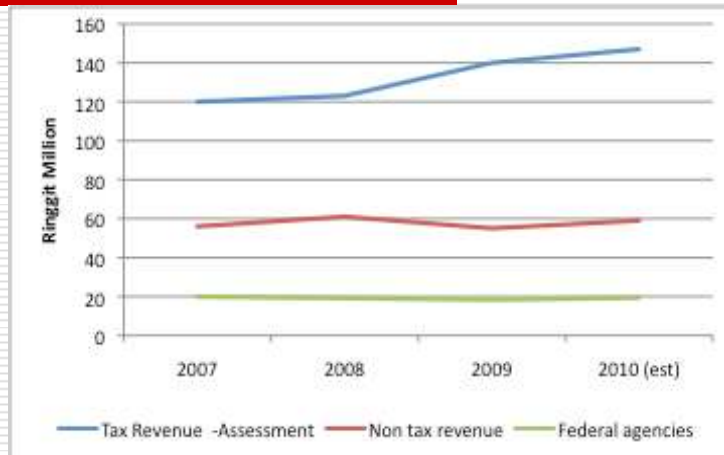
MPPP Budget 2007 – 2010

Ringgit Million	2007	2008	2009	2010 (est)
Tax Revenue -Assessment	120	123	140	147
Non tax revenue	56	61	55	59
Federal agencies	20	19	18	19
Total	201	208	224	230

Non-tax rev = dev charges; planning fee; land sale; rent;
licenses

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MPPP Budget, 2007 – 2010



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Development Related Revenue of Local Government

- Assessment – 65% of total revenue
- Services
 - Building & Planning Fees – 2% of TR
 - Development Charges = \$15 psf -8% TR

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What are Priorities for State & City

- Is primary goal of property for consumption or investment/speculation ? What do we encourage?
- Do we focus on livable and sustainable city or global city?
- Do we emphasize Amenities or just Buildings?
- Lessons from Singapore

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What Powers and Instruments Available to State & Local Govts

- Land use and land supply
- Planning permits
- Levy on purchase by foreigners ?
- Raising quit rent, assessment to keep up with inflation or land values; with rebates to those with low income

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Land Supply

- State own only pockets of land and state land TOL
 - Land Reclamation only source of land supply and income
 - Precious asset must NOT be mortgaged away
 - State work with private sector but retain control of land reclamation rather than out right sale
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Planning and Charges

- Levy on foreign buyers
 - Premium on high-end development charges
 - Proceeds used for X-subsidies
 - Controlled density
 - Other suggestions from audience ?
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Incentives for Social and Affordable Housing

- Proper planning of land use to :
 - Decentralize centers
 - Minimize distance btw work and residence
 - Provision of land in mainland for social and affordable housing to private developers
 - Provision of mass transport in areas of high density
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Incentives

- Strict control and enforcement of people eligible for social housing
 - Involve non-profit organizations in affordable housing
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□ THANK YOU