

Transparency in Malaysia Local Government Administration. The overview of Internally Generated Revenue (IGR).

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Abstract: Local government in Malaysia is multi-purpose bodies with considerable discretion to the extent the services they provide are within the law. However, transparency is not new concept or principle for the local authority. It is widely discussed a long time ago and become one of the core principles of private entities. Local authority refers “transparency” as to openness and accountability. For Local Government, internally generated revenue is the direct internal sources of revenue and the strong cash flow is important for every organization to ensure continuity and credibility in providing their services. Although the local governments in Malaysia derive their power and autonomy through the process of decentralization from the state government, they have little power and autonomy. So conclusion, local authorities must plan strategically to generate more resources and at the same time prove that local authorities are more efficient and transparent.

Key words: *Local Government, IGR, Transparency*

INTRODUCTION

Transparency is not new concept or principle for the local authority. It is widely discussed a long time ago and become one of the core principles of private entities. In corporate governance, transparency is seen as crucial factors as a monitoring mechanism by the capital provider that is the shareholders and the agents or managers of the company.

Local Government finance encompasses a complex series of issues that range from provision of services to financial administration, and how the funds are collected, allocated and spent. Local government in Malaysia are multi-purpose bodies with considerable discretion to the extent the services they provide are within the law.

Malaysia’s local authorities have increasingly struggled to maintain viability in recurrent income with barely able to support infrastructure development through revenue surplus and from loan. Local authorities have very little control and compounded by an environment of politics that circumvent the operation of local authority especially in raising overall income sources to match the rising costs and inflation.

Malaysia as a nation therefore creates local government councils as the third tier of the government whose major responsibility is to ensure the efficiency, effectiveness of the delivery service to public. The local government is guaranteed and protected by the constitution. Constitutionally, the law that creates local government councils as third tier of government is enshrined in local government Act 1976 (Act 171).

Definition of Local Government

According to Singaravelloo [1], local government is a public agency that provide urban services to its communities. From this definition, local government is a subsystem operating within or among other subsystem because it only emphasizes on service delivery but the legal status is not defined. Local government denotes the government of urban area, rural area or combination of the area, subordinates to the states but having independent legal existence from the government [2]. This definition only define about legal existence from government but does not take cognizance of the revenue generating capacity of the local government as enshrine in the constitution.

Ajayi [3] opines that the essence of creating local government council around the world stems from the need to provide the facilities at the grassroots level. This is because local government councils

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are constantly striving to improve the efficiency and effectiveness of the service delivery to the public. These can cause pressures because of the public demands for the quality service delivery in all kind of the services.

Transparency in Local Government

Local authority refers “transparency” as to openness and accountability. The explosive and evolution in the information and communication technologies provide opportunities to communities to contribute to the role, function and operation of the local authority as well as to raise their concerns and rights of an issue. This technology becomes a mechanism which provides the local community as a means for feedback and discussion and to distribute information, events and news regarding the local authority and the area administered by the local authority.

In the field of local government, the principle of transparency is more important and prevalent. In the public governance environment, local authority basically important to two parties, namely federal government and local community. In order to increase its efficiency, the federal government provide significant amount of monies to which part of this money were collected from the taxpayer’s to the local authority.

Sources of Revenue in Local Government in Malaysia

The general provision for the Peninsular Malaysia’s revenue of the local authority are stated under Part 5, Section 39 of the Local Government Act 1976. As for Sabah and Sarawak, it is governed by their respective Ordinances. For instance, Sabah is under Local Government Ordinance 1961 (LGO1951, S.55) and Sarawak is under Local Authority Ordinance 1948 (chapter 117) vol. 5 of Sarawak Law, the Local Authority (Rating) Regulations, the Kuching Municipal Ordinances 1988 (modification of Cop. 116/1948) and the City of Kuching North Ordinance 1988.

Local government revenue can be obtained from within local sources and consists of taxes, rates, rents fees, fines, user-charges, dividends from investment and income arising from any of its properties. Beside, local government can derive income from outside its locality such as income from grants, contributions, in-aid-of rates from Federal and State Government and also from other public authorities. Loans may also be raised but subject to the approval by the State Authority.

As enshrined in the Constitution, most of the country's major outcomes such as income tax, export tax and road tax. Therefore, it is not

surprising that local governments strapped for financial resources in carrying out its operations.

Local government’s funding is usually given in the form of specific grants from the federal government or the state. Therefore, a good relationship between the local government with the Federal government and the State government is necessary to obtain assistance on an ongoing basis. The existence of dependency syndrome resulting policies and actions are influenced by the local government that provide assistance (Statement ni kurang jelas).

The Ministry of Housing and Local Government in Malaysia also has classification sources of revenue into six categories as follow:

- a) Assessment rates (inclusive of contribution in-aid-of rates)
- b) Licenses and permits
- c) Rentals
- d) Government Grants
- e) Car parking charges, planning fees, compounds, fines and interests.
- f) Loans (from higher government / financial institution)

Federal and States Grants and Fiscal Transfers

Financial grants from Federal and State Governments are the non-loan based sources (NLBS) of revenue. This grants are not generated locally by local government but derived from the higher level of government. This external sources include:

- i) Annual Equalisation Grant
- ii) Launching Grant
- iii) Development Project Grant
- iv) Road Maintenance Grant
- v) Balancing Grant

Among these financial grants, the most important is Annual Equalisation Grant and followed by the Development Project Grant. Fiscal transfers are heavily relied upon by the weaker local authorities for purposes of financing their obligation activities. On the whole the transfers are necessary for local authorities to carry out their social and economic development functions.

Annual Equalisation Grants is given by Federal Government to Local Government through State Government in accordance to the State Grant (Maintenance of Local Authorities) Act 1981 (Act 245). But the local authorities in Sabah and Sarawak do not receive this grant since they do not follow the Local Government Act 1976. The formula was set by Ministry Housing and Local Government.

$$FC = \frac{(8.9\% \times \text{Annual Value}) + \text{Administrative Revenue}}{2}$$

Launching Grant was introduced as a result of the restructuring of local authorities some years ago. This intention was help local government in expediting their restructuring process such as upgrading their facilities and buying their equipment to service jurisdictional areas.

All local authorities are eligible for the development project fund especially utilization for implementation of socio-economic projects. Basically the approval by Ministry of Housing and Local Government for project such as infrastructure development, social facilities, cleanliness and beautification, recreation park, and sanitary projects (landfills, incinerators).

Road Maintenance Grants are eligible for all authorities. "Roads" are considered as the "State Roads" and maintained by the local authorities which the claim is made directly from the respective State Government.

Internally Generated Revenue (IGR)

The strong cash flow is important for every organization to ensure continuity and credibility in providing their services. Where the provision of power to obtain financial resources, freedom in decision making, the ability to be financially independent will determine the integrity of a government.

The local government finance is different from the state and federal government as it provides different tax sources. The local government receives only a small portion of the public revenue when compared to the State and Federal governments.

Internally generated revenue is the direct internal sources of revenue from local government. Revenue sources are the same for the county council and municipal council or city council. The income sources are as follows; taxes, rentals, licenses and permits, fines, dividend from bank, donation, rents fees, rates, and user-charges.

Taxes

Assessment taxes is an important source of revenue for local authorities. These assessment tax is taxes imposed on the holding or property in the administration of local authorities. Tax is a type of direct taxes borne by the property owner. The revenue of the collection taxes are based on the development of administration areas. Most of the activities of local authorities known as "public good" such as public health and beauty of the city is among the services funded by this tax.

Assessment tax is imposed on the percentage of the annual value of a holding. The annual value of which has been defined by the Government of the accuracy of the estimated gross annual rent reasonable from year to year from withholding if rented by the owner of land to pay expenses, repairs, insurance, maintenance and taxes. Assessment tax is the tax imposed on the current value of a holding.

The Local Government Act (1976), set a maximum rate of assessment may be imposed by local authorities on a holding is not more than 35% if it uses the annual value or not exceed 5% if using value-added as a tax base. Local authorities are also allowed to impose a tax assessment at different rates according to use and holding location.

However, for unused land or and inhabited are also charged of tax assessment of 10% of the annual value expressed in local authorities. This provision creates a fine element in taxation that owners use or development of land or buildings that are left.

Example formula calculation of the assessment rate is

Assessment	=	x%	x	annual
value				
if, rate	=	10%		
Annual value				
of holding	=	\$1000.00		
Assessment	=	0.1 x \$1000.00		
	=	\$100		

* the "x" is rates of assessment tax

Another tax authorized and imposed by local authorities is the rate of drainage and sewerage rates (section 28). However, both these taxes are not used again in the present as it has been taken over and managed by the private sector rather than local authorities.

Licenses and permits

Licenses are levied by local government to regulate trading activities within its jurisdictional area. Licenses is also a major source of income for local authorities. Where the Local Government Act gives wide powers to local authorities to register, license and regulate trade, commerce and industry.

The fees collected from licenses was contributed to the revenue of the local government. The charges imposed by local governments vary by category of license. There are a number of different type of licenses that was issued and allowed by local government. These licenses can categories into:
a) processing and manufacturing of food and food related products

- b) business, trades and industrial
- c) hotel, lodging and entertainment establishments
- d) to operate hawker stalls and food stalls

Licenses is a tool for controlling the establishment, ownership and operation of a business and it is under the jurisdiction of local authorities. Jurisdiction for the licensing of a business is conditional. However, in Malaysia, the granting of licenses by local authorities for nearly all types of businesses that are not registered and regulated under other acts without reference to the terms "harm or nuisance".

Price increase is also license that cannot be carried out easily due to the particularly small businesses merchant, indigenous people who have strong political influence. Dealer groups can be seen in the city is no longer monopolized by the Chinese. For example, in Kuala Lumpur, 1/3 of the dealers comprising indigenous people. This complicates efforts to increase the license fee.

Rentals

These are charges or fees imposed upon users for rentals a local government authority properties. Nearly all local authorities in Malaysia let out marker spaces and stalls, hawkers and business complexes, community balls and night market trading sites to traders.

The more lucrative rentals are obtained by the larger municipalities that possess assets such as commercial and shopping complexes, auditoriums, civil halls, conference rooms and even musical bands. The charges for renting out such facilities can constitute a major proportion of local authority's annual income. Beside, local authority provided sport place and these facilities are let out for all kind of sport activities.

Rental rates imposed by local governments are usually much lower than the gross rental market by the private sector. The problem exists from resource rent is the aspect of the collection and enforcement because those who rent are mostly small businesses who cannot afford. Therefore is difficult to manage resource rents and unstable.

Fees and charges

Local authorities carry out various activities and provide facilities for the local community. Local authority also can imposed charge for services rendered. This facility is provided on a fee or a reasonable rate. In general, these sources produce no less than 10% of the total revenue of local authorities. They collect fees and service charges much under Town and Country Planning Act 1976.

They also can collect fees by providing special local authority services, such as planning fees. Local authorities may also charge for the car parking within their jurisdictional area and also the advertisement fees. Besides, the fees were imposed on facility health clinics, veterinary clinics, use of tools and recreational facilities such as swimming pool, tennis, soccer field, libraries and others.

The fees and charges may differ from one local authority to another. Charge were made by the local authorities for the dislodging of septic tanks and any service rendered for sewerage activities before it change to the privatisation of sewerage services in 1994.

However, most of the fees prescribed facilities is low was made in order not to burden the poor and the needy. The best method is used to help those who cannot afford to provide subsidies to all.

Fines

Fines are a source of instability. These resources cannot be expected to produce regular financial flow. Fines and compound are levied by local authorities for offences such as littering, dumping of household refuse, hawking without valid licenses, illegal or wrongful parking within the local authority areas. They include other offences deemed within the powers of local authorities to impose and charge compounds and also fines.

Local Government Budget

Public budget refers to government financial planning in terms of determining the type and amount of revenue obtained as well as strategies on how to spend it to achieve their target.

Budgeting in local government has some role among which are to ensure that there exists liquidity namely the determine expenses not exceeding income. Therefore, the determination of tax rates, service charges, fees and so on are determined based on the budget of the planned.

Budget through a formal procedure to give power to local governments to spend within the approved allocation. Therefore, there is an element of control in the budget where necessary through the tabling of the report. In short, it is concluded that local government budgets as policy-making process involves management and control.

Issues in Local Government

Malaysian local government's often face constant criticisms over delays, poor attitudes, weak enforcement and displaying arrogance in delivering services to the community [4]. Although innovations and reforms have been introduced, the local governments have little power and autonomy

due to the process of decentralization from the state government.

Local council elections in Malaysia were practiced in the past, but were however abolished in the 1960s. Some proponents argued that local council elections were abolished due to many malpractices faced by Local Government such as wrongdoing, corruption, and bias; which affected its administration and financial system [5]. The suspension was never lifted and instead made permanent under Section 15 of the Local Government Act 1976. Under the Act, or the laws of individual states where relevant, local government members are appointed by the state government [6].

Local Council Elections are very much under political influence and did not guarantee local constituents' ability to independently elect their local council representatives. This can be seen with the issues that occurred in the state of Selangor and Kedah when they are under the rule of the opposition.

1) Local Government Selangor

In The Star dated 19 April 2013 grasped the attention by the then Chief Minister of Selangor, Tan Sri Khalid Ibrahim, when the opposition took over Selangor state with the domestic income has increased to RM50 million compared to the previous administration with RM20 million.

The Selangor state government adopted open-tender system at all levels of the state machinery as the best ways to ensure that public money is properly spent. Based on the open-tender system, the tender committees would require bids for all public as well as civic society entity [7]. Local governments should therefore be granted both political liberty; the right to local self-government and economic liberty; the right to self-provide public local goods and/or engage in economic activities for the sake of the local development.

Conclusion

Although the local governments in Malaysia derive their power and autonomy through the process of decentralization from the state government, they have little power and autonomy [8]. The decentralization efforts at the national levels, implemented by the central offices of various department such as one-stop service center, one-stop payment center increase and strengthened autonomy of local governments. Nevertheless, the local governments often faced situations that at times it cannot be incorporated, such as the financial difficulties faced by the local government. Tax resources and the potential broadening the tax base is still limited. Therefore, there is a crucial

projects to submit more than one quotation. This system has helped to reduce costs, cut out the middlemen who over-inflated the project costs and prevent corruption.

Another example is the transparency of Petaling Jaya City Council's budget draft 2010 of which the public is empowered to jointly prepare the budget. The public collective participation recommendations on budget items presented and received showed the transparency in decision making and their government and that the budget is based on public interests.

2) Local Government Kedah

According to Yang Dipertua Pertubuhan Ikram Malaysia Kubang Pasu, Dr. Ikram Hasbullah Ashari, there is no corruption case involved during opposition administer for 5 years [9].

Similar to Selangor State, Kedah practised open tender system in their state and at their local government level. All public projects will be investigated to ensure that there is no corruption involved to ensure accountability and transparency.

Even though many changes were made, there are still many constraints on the states. Many decisions to be made regarding the government is still under the control of the federal government which limited the process of finding and obtaining financial resources at the local government level.

Here say, local governments are political as well as economic entities. They also represent a form of human organization which shares both governmental and associative nature consequently featuring characteristics of a need for the local authorities to engage more in development activities and not limit their role to only mandatory functions as that this will help to increase the financial resources at the local government level.

Clearly, the government is too dependent on the state government to strengthen their political influence. With exclusive control over all important matters, the federal government plays a much bigger role than the state authorities. Given its monopoly over resources and personnel, the federal government exerts considerable influence over state and local matters. Even with autonomy in certain matters, the states rely on centrally deputed civil servants and federal grants [10].

This dependency weakened local authorities in making strategic decisions or policies without the support of the state. Without good financial management, the local authorities may not be able to carry out its functions properly. The negative

perceptions from the public against the local government administrations cannot be erased if the financial accountability of local authorities is poor. Therefore, the first step is to increase the accountability of the local authorities to provide financial statements and reports quickly and dissemination of financial statements to the local community.

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