

LOCAL GOVERNMENT IN MALAYSIA: BACK TO BASICS AND THE CURRENT SCENE

马来西亚地方政府 —— 还原根本与当今状况

S. KUPPUSAMY

Abstract

Although local council elections were introduced before those at the state and federal levels, they have suffered a sudden death since 1965. In the current period of political and economic uncertainty, arguments have been put forward on the need to reintroduce local government elections. This paper takes the view that elections would further the cause of democracy and would improve local administration in the country.

This paper highlights the management, administration, town planning and financial issues facing local government in Malaysia. One of the issues examined is the dependence of local councils on federal equalization and development grants and its affect on the "deliverables" of local councils. Problems have arisen from the federal government's bias in making available development grants to local councils under a state administered by opposition parties. This dependency on federal grants has seriously undermined the financial autonomy of local councils. In addition, there is a conflict in the role of councillors, especially in opposition states as they come under the critical eyes of the state administration as well as within the local authorities themselves.

The paper suggests that local governments operate like a corporate entity while retaining their legal status and working for the interest of the public and their welfare.

Dr. S. Kuppusamy is Senior Lecturer, Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya. Email: kuppusamy_s@um.edu.my

© Centre for Malaysian Chinese Studies, Kuala Lumpur 2008

This may entail local authorities outsourcing selected services, so as to reduce their financial and administrative commitments.

摘要

地方议会选举在州议会与联邦议会选举之前就已经实行过了，但到了1965年，它却突然间消失无踪。在目前政治与经济处在不安定的形势下，不少有关恢复地方政府选举的议论也提出来了。本文所持的论点认为，选举可以推动民主政治，同时改善国内地方的行政管理。

本文所要突出的课题是：马来西亚地方政府所面对的管理、行政、城市规划以及经费课题。受检视的其中一项课题是：地方政府受制于联邦的平均与发展拨款，进而影响地方政府进行的工作。曾经产生的问题是：联邦政府在发放发展拨款予由反对党执政的州属的地方政府时所持有的偏见。依赖于联邦的拨款，严重侵害了地方政府的自治性。此外，作为地方政府人员，他们的身份和角色会矛盾和冲突，特别是反对党执政的州属，他们会受到州政府批判式的眼光对待，在地方官员之间，彼此也会如此。

本论文也提出：地方政府应该操动如同一个协和的统一体，保有自身的法律地位，为公众的利益与人民的福祉而运作。这样也使地方政府可以私有化某些服务项目，以减轻资金与行政方面的负担。

Introduction and Definitions

The local government is a public agency that provides urban services to its communities. It is therefore accountable to its stakeholders, i.e. the citizens as well as the state and federal governments that provide it with financial assistance or grants. There are standards and guidelines to follow to ensure accountability and transparency. Like other public agencies, the local government is expected to render satisfactory services to its stakeholders. The range of services provided is so wide that it is almost impossible for the local government to fully satisfy all its stakeholders. This problem is exacerbated by the existence of state and central governments. State governments dictate what is expected from the local government in order to support national and local goals.

The local government forms the base of the administrative hierarchy of a country and is the most accessible to the community that it serves. Like Canada, India and Nigeria, there are two other levels above the local government in Malaysia whereas in many other countries, there is only the central government. The more tiers of government, the greater the difficulty in carrying out the local government's

activities. On the other hand, local government is more influential than the central government in some countries, such as Japan, where the functions are clearly stipulated by law. Aside from the armed forces, foreign policies and national finance that fall under the ambit of the federal or central government, other services are shared among the various tiers of government.

In Malaysia, local government is the lowest agency in a three-tier hierarchy and has its own legal status as provided for by the Federal Constitution. The constitution stipulates that Malaysian local government is the direct responsibility of the respective state governments, the second tier. However, in contrast with the state governments and their limited revenue derived from land taxes and royalties on mineral extraction, the federal government is in a stronger position to finance the operations and development expenditures of local governments. The constitution also acknowledges the rights of the state that are stipulated and come under the jurisdiction of state governments. Off-shore resources, however, are deemed to belong to the nation rather than to the states.

In this paper, "local government" is used interchangeably with the term "local authority". Both terms are rather ambiguous. As the "local government" in Malaysia does not have elected members, it does seem to be a misnomer. On the other hand, "local authority" may create some confusion as numerous public agencies which operate at the local level are also known as local authorities. In this paper, both these terms are used to denote a form of local government that provides urban services.

The paper addresses some of the concerns of local government in Malaysia. Among other issues, it discusses local government in the historical perspective, its position, management, responsibilities and finance with reference to its status that befits a well-organized local tier of government.

Establishment of Local Government in Malaysia

The local government in Malaysia has its historical roots dating back to the early days of the nineteenth century. A local administration in which the people were represented appeared in Penang under the Committee of Assessors in 1801. The committee was chaired by the British governor of Penang (Phang 1989) with the task to develop George Town, the capital of Penang, and to draw up plans for roads, drains, public order, and collection of local tax. In 1828, this committee was replaced by a municipality. Malacca (now Melaka), one of the Straits Settlements in

the country, also followed the footsteps of Penang. The Municipal Rates Act 1848 was instrumental in introducing municipal committees in George Town and Malacca which provided the avenue for the public to scrutinize financial accounts, the use of public funds and the function of the committees. This Act was replaced by Act 1856 that led to the establishment of five municipal commissioners per municipality - three elected, one appointed by the Governor and another appointed as the president of the municipality (Phang 1989).

The first municipal election took place in 1857. By 1888, the Straits Settlement Municipal Ordinance increased the number of commissioners to six, comprising three each of elected and appointed members. The first "local government" in the Federated Malay States was established in 1907 under the Sanitary Board Enactment with members appointed by the British Resident of each state. The Municipal Ordinance 1913 allowed for the municipality to provide health services under the charge of appointed commissioners. By December 1945, the Town Boards Enactment of the Federated Malay States (Cap 137) replaced the Sanitary Boards by "Town Boards" but retaining the method of appointing board members. The town boards remained under the jurisdiction of state governments likewise for the Unfederated Malay States. On 1 February 1948, the federal government became the guardian of local government in Malaya that allowed for the propagation of local governance across all states in the peninsula. By 1948 there were four municipalities (Penang, Melaka, Kuala Lumpur and Singapore) (Norris 1980; Taylor 1949), 65 town boards and four rural boards. The ordinance was subsequently amended a few times soon after, but continued to exist until the Local Authorities Elections Ordinance 1950 (Ordinance No. 52 of 1950) was passed to allow for election of councillors ranging from six to 24 per council. The move encouraged the election of councillors under the Local Authorities Elections Ordinance 1950 which, as mentioned before, witnessed the first full-scale election in George Town on 1 December 1951, though some councillors were still appointed. The spirit of Elections Ordinance 1950 was fully realized on 1 December 1956, when all the councillors in Penang were elected, while the president of the council was elected among the councillors. George Town also witnessed the proclamation as a city by Queen Elizabeth through a declaration under the Letters Patent. The Local Authorities Elections Ordinance 1950 was subsequently replaced by the Local Government Elections Act 1960 (Act 11) to make it a stronger legislation on local government elections. Local government elections were suspended during the Confrontation with Indonesia. Until today, the local government elections have not been restored, though various interest groups are pushing for its revival. There is

general scepticism that it will ever be restored. In fact, the initiative by some non-governmental organizations to pressure "opposition states" to revival local elections is meeting serious obstacles and the councilors appointed by opposition parties are having a difficult time with the state and local government administrators. This shows, to a certain extent, the effectiveness of federalization measures that place federal officers in key positions in the state, including the mayors or presidents in the major local councils. The suspension of the Local Government Elections Act 1960 was never lifted and the very fact that this act was amended in 1991 indicates that the law is still in force and elections can be reintroduced when the situation permits.

By 1966, the local councils consisted of three municipalities (Singapore left Malaysia in 1965), 37 town councils, six autonomous town boards, 31 non-autonomous town boards, seven district councils, 289 local councils (Norris 1980). The *Royal Commission of Enquiry into the Workings of Local Authorities in West Malaysia* headed by Senator Dato' Athi Nahappan was appointed by the Cabinet in 1965 to examine the working of all local authorities, review existing laws and to recommend structural changes of local authorities. The report paved the way for the restructuring of local government system in Malaysia through the Temporary Provisions Local Government Act 1973. However, not all the suggestions mooted by the Royal Commission, including those on local government elections, were accepted by the government. This act was subsequently replaced by the Local Government Act 1976 which forms the main local government legislative document in Peninsular Malaysia until today (Phang and Norris 1988). Act 1973 allowed for consolidation of weaker local government into larger ones. Following this, the merger of George Town City Council and Balik Pulau Rural District Council demoted the City Council to one of Municipal Council.

The Position of Local Government

Local government has been stated under List II of the Federal Constitution as a state matter except for the Federal Territories of Kuala Lumpur, Putrajaya and Labuan. The state jurisdiction in local administration covers municipal corporations, local, town and rural boards and other local authorities; local government services; local rates; and local government election (*Ninth Schedule, Sect. 4(a) of List II - State List*). The three-tier hierarchy of the government is shown below:

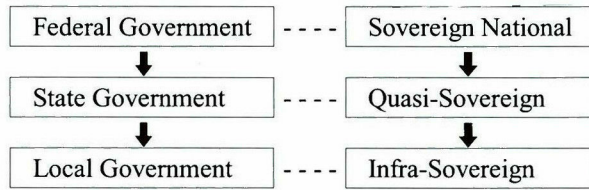


Figure 1: The Three-Tier Hierarchy of the Malaysian Government

As local government falls under the purview of the state, the federal government is unable to exert direct influence on it. Although there is a Ministry of Housing and Local Government which also oversees local government affairs, its influence is exerted only through its financial grants to the local authorities. This too has to be channelled through the state governments according to the State Grants (Maintenance of Local Authorities) Act 1981 (Act 245). Section 3 of this Act states that the federal government can impose terms and conditions on state and local governments on the use of grants provided for designated purposes. Section 2 of the same Act also empowers the Minister, after consultation with the Minister of Finance, to provide a grant to any state government for the maintenance of its local authorities. However, there is no direct control of the Ministry of Housing and Local Government over local governments as they are only answerable to their state government. This has rendered the ministry helpless even in obtaining financial data on local government in the country.

In most cases, state governments do not allocate immediately the equalization grants provided to the local authorities by the federal government. Some states withhold the grants for up to five months while others allocate the fund to their local authorities within a month. Hence some local authorities operate without funds for a few months although they are included in the annual budget. On the other hand, the federal government provides development grants directly to local governments without having to go through the state governments.

Acknowledging the lack of direct influence of the federal government over local government, the Constitution provides for the establishment of the National Council for Local Government (NCLG) and chaired by the Minister of Housing and Local Government. Its members comprise representatives of each state, usually the *Mentri Besar* or Chief Minister, and ten other members representing the Federal Government. In practice, the Minister invites the Deputy Prime Minister to chair the meeting to exert influence over the state representatives, and to expedite the adoption of policies and delegation of action to the state government to its local

authorities. Meeting at least once a year, the NCLG ensures standardization of and conformity to rules and regulations pertaining to local government throughout the country. It can also advise state governments on matters pertaining to the local government. Although decisions made at the meeting are binding, there are cases where some state governments choose to be silent on the implementation of some of the policies. Sabah and Sarawak are invitees to the NCLG but they have the privilege to decide whether or not to accept the decisions of the Council.

Most state governments are dependent on the federal government for financial aid to make up for the shortage of funds for their local authorities. The federal government may establish new special-purpose grants for approval by parliament for the state governments (Shafruddin 1987). In 1974, the federal government established the equalization grant to Perlis and Kelantan whose per capita revenue was below the national average. In December 1976, parliament approved the provision of Revenue Growth Grant to finance infrastructure projects. Other grants such as capitation grant and state road grant are also provided to state governments. In view of their financial dependence on the federal government, coupled with the influence of partisan politics at both federal and state levels, state governments, and thereby the local authorities, are subject to federal influence. It is estimated that local authorities contributed only about 4 per cent of total government expenditure, while the respective rates of state and federal governments are about 12 and 84 per cent. In 2001, the per capita expenditure by the three levels of the government from top to bottom is, in terms of ringgit, in the ratio of 3,830:508:161. Local authority expenditures were increased when the federal government revised its equalization grant in 2007, subject to a maximum of RM5 million a year. Prior to this, some local authorities received only RM215,000.

State governments make laws in their legislative councils while local authorities are empowered by Act 171 to establish their own by-laws to enforce rules and regulations in areas under their jurisdiction. Hence, one may find multiple jurisdictions of power in local authority areas. Residents in local authority areas have to face issues of enforcement by federal agencies as well as those of their own local authority. Traffic offences are a good example. However, there are also instances where the local authorities are unable to act as certain offences committed by the people fall under the jurisdiction of federal agencies. For example, the failure to display parking tickets is an offence according to the by-laws of local authorities, but the act of "double-" or "triple-" parking is an offence in the eyes of the traffic police who belongs to the federal police force.

The Management of Local Government

In many countries, such as Australia, Canada, New Zealand and United Kingdom, the large local government is often headed by a "mayor". Mayors are either elected directly or indirectly and, in some countries, wield considerable political and/or executive authority.

In Malaysia, the title associated with the head of local authorities is mayor for city councils, and presidents for municipal and district councils. However, they are currently appointed by the state or federal governments. The manner in which the mayors or presidents are instated differs from state to state. In Johor, Kedah, Kelantan and Terengganu (the former Unfederated Malay States), they are rotated among the state civil servants. In other states, they are appointed from among the federal civil servants. In either case, many officers who become majors or presidents by appointment or rotation lack sufficient understanding of or experience in local government. Even the appointment of senior officers at the Ministry of Housing and Local Government does not take into account their knowledge of local government. Hence, there is a common tendency to treat the running of local government in the same way as managing other public agencies. The Local Government Act 1976 (Act 171) defines the mayor or president as a member of the appointed council. The mayors/presidents in city and municipal councils are appointed on a full-time basis. In most of the district councils, however, the post of the president is taken as part-time while the secretary serves full time.

The Council

Mayors or presidents have substantial influence on how the local authority is to be run. As the person in charge of the local authority, he is only answerable to the state government. He heads a council of eight to as many as 24 members appointed by the state government. In theory, they represent the people living in the local authority area and possess professional expertise to help in the operation of the local authority. In actual fact, emphasis has been placed on political affiliation to the ruling party of the day.

The mayor/president establishes a number of committees with selected councillors serving as members. Many of the committees are headed by the mayor/president himself. Decisions are made at the committee level and these are brought forward to the full council meeting generally for endorsement. In practice, most councilors will not challenge the decisions as a common understanding

between them. The role of councilors in these committees becomes questionable if, instead of vetting the applications from the public, they end up as policy makers at the full council meeting. But then membership in the committees is considered a "reward" to these councilors. Thus, a conflict of roles would emerge among councilors serving as policy makers in the committees and as the "watch-dogs" of the people at the council meeting.

The agenda under discussion during council meetings varies according to local authorities. Instead of having meetings just to endorse decisions of sub-committees, there has been an emphasis to incorporate items in the agenda to discuss the performance of the local authority, the performance of client's charter, and reports by the mayor/president and councilors on their "rounds" in their designated areas.

Councilors receive allowances to perform their duties, which may include (i) a fixed monthly allowance, (ii) a fixed allowance plus sitting allowance subject to a certain maximum amount, or (iii) a sitting allowance only. The City Hall of Kuala Lumpur pays its Advisors (not councilors) a fixed allowance of about RM1,000 a month. Other local authorities pay an amount generally acceptable by their state, to about RM30 per sitting in a meeting. On average, councilors in city and municipal councils receive an average of between RM500 and RM550 a month, while those in district councils are paid less than RM400 a month. The lowest paid are councilors in Sabah who receive not more than RM150 a month.

Although local councilors are expected to work hard to represent the residents, yet they are generally poorly compensated for their service. Hence, many have nothing much to offer except a handful who have the funds or those who take their membership as a stepping stone to contest in the state or parliamentary elections.

Although Act 171 states that the appointment of councilors can be made up to three years per term, states such as Pulau Pinang appoint them for a year while other states make it two years, in both cases subject to renewal. This is a wasteful system in which councilors have to perform without appropriate compensation. Few appointees can perform effectively within a year or two. Many remain inactive for their lack of knowledge and expertise on matters of local government. To date, councilors serve on a part-time basis only, i.e. they only attend meetings or when their presence is required. Only a handful of local authorities provide councilors with a proper office. The Athi Nahappan Report required that councilors have a minimal education qualification. It is not always certain that the right person is considered for appointment. In the absence of an effective system by which the right candidates are appointed, it is not surprising that there is a mismatch between what is expected from the people and what is delivered by the councilors. At the same

time, there is also a mismatch between what is expected from them and the financial support given to them to administer their duties efficiently, often as politicians in the making.

Administration

The council secretary, who reports to the president, is the chief administrative officer (CAO) of municipal and district councils. For city councils, this role is shouldered by a director-general, who reports to the mayor. The secretary is put in charge of overall administration of the local authority. In most cases, he is almost as influential as the president, and sometimes more so. As the CAO of the local authority, he is directly responsible for implementing the policy decisions made by the council through department heads who report to him. Municipal councils usually have a problem where the heads of departments hold positions on equal status with that of the secretary. Although this does not cause serious consequences, it does give rise to situations where the secretary is unable to discharge his authority effectively over the departments whose heads are his nominal subordinates.

In some states, there is an intermediate position of deputy president between the president and the secretary. The deputy president, often a politician, acts when the president is absent.

The Responsibilities of Local Governments

The Federal Constitution delineates the functions of federal, state and local governments. The local government carries out obligatory, discretionary services and as agents of development. However, unlike private organizations, local authorities are hardly accountable to the very people from whom taxes are drawn. Local governments provide social services and not for profit-making.

Local governments provide mandatory and obligatory services. The former comprises items that are provided by every local authority while the latter comprises additional services that are provided according to the needs and expectations of the local stakeholders and the ability of the local government itself. The services provided may include the following:

- Maintenance of township, roads, street lights and drains
- Collection and disposal of solid wastes (including sewerage)
- Trimming of trees and grass-cutting

- Landscaping and beautification
- Licensing of hawkers and businesses
- Control of building plans and advertisements
- Vector control
- Public recreation facilities (fields, swimming pools)
- Public housing (only in some places)
- Pets licensing
- Public toilets
- Crematoria
- Rest houses
- Car parks
- Markets
- Enforcement

In Penang, water, fire brigade, bus services and the funicular Penang Hill Railway were once under the responsibilities of the Penang Municipal Council. In Taiping, the council provided electricity supply services. Financial constraints have been cited as reasons for the surrendering of these services. In consequence, the federal and, to a certain extent, the state governments have taken over some of these services. Local government functions that have been surrendered include the management of rivers to the Drainage and Irrigations Department; fire-fighting services to the Fire and Preventive Services Department; drug controls and weighing scales enforcement to the Ministry of Domestic Trade and Consumers; public libraries to state government; museums to Museum and Antiquities Department; water supplies and reservoir maintenance to respective state water authorities, Public Works Department and Drainage and Irrigation Department; abattoir services to the Veterinary Services Department; solid waste disposal to concessionaires appointed by the federal government; sewerage services, privatized in 1993 by the federal government; and the maintenance of federal and state roads which has also been privatized (Kuppusamy 2006). In addition, Selangor standardized and privatized parking services that were formerly performed by the local authorities.

Finance

Revenue

As local government derives its revenue mainly from assessment taxes, its accounts are always of interest to the public. The past few years have witnessed

queries on the financial accounts of the Petaling Jaya Municipal Council by resident and non-governmental organizations. The lack of transparency is similarly encountered in the City Hall of Kuala Lumpur which claims that it is only legally accountable to Parliament. On the other hand, one can easily view the amount of fixed savings of Putrajaya Corporation in its website. Not all local governments display their annual and financial reports to the public but generally the officers are governed by the Official Secrets Act and the *Akujanji* that they are in public service. Under these circumstances, it is not easy to see why it is difficult to have access to a reasonable amount of financial information from the local authorities.

The local government commonly derives its revenue from three main sources, i.e. direct taxes, non-tax revenue, and transfers (also known as grants). The range of revenue that falls under each source may vary by country. In some countries what can be collected or charged are stipulated clearly including the ability of higher levels of government to provide grants to its local governments.

The Federal Constitution states that "no taxes or rate shall be levied by or for the purposes of the Federation except by or under the authority of federal law". This can be interpreted that new taxes can only be imposed with the approval of Parliament. The revenues that can be collected are stipulated according to Section 39 and 127 of Act 171 in Peninsular Malaysia.

Local authorities can only impose assessment tax and nothing else. These are assessment taxes on properties occupied by residents, government agencies and business operators under their jurisdiction. There appears to be slight variations among the states in the calculation of the assessment. In most states, assessment tax on residential, commercial and industrial areas is calculated as a proportion of the total annual rental value of the property. In Johor, the calculation is based on a proportion of the improvement in the total value of the property. Wherever it is, total assessment tax will depend on the number of taxable properties and accuracy of the rental or total value of the property. Some local authorities have properties valued one to two decades ago, thus making the assessment tax much lower than what it should be today. In some cases, the revision of property valuation is rejected by state governments for fear of political backlash. Only a handful of local governments has succeeded in getting their valuation exercise approved by state governments in the past.

Government agencies also pay assessment tax, often called "contribution in-lieu", on their buildings to the local authority based on a separate formula. Contribution in-lieu is slightly different from the private assessment tax as it is often lower in value than the tax paid by residents or businesses.

There is no tax sharing in practice between the federal government and local authorities. While many argue that local revenue should not go entirely to the central government, this view is often ignored by the federal government and the Ministry of Finance officers would shun away from any discussion on this topic. In Japan, for instance, all taxes go to the central government which then returns 32 per cent of its income tax and alcohol tax, 34 per cent of corporate tax, 29.5 per cent of service tax and 25 per cent of cigarette tax to the local governments.

The second type of revenue (non-tax revenue) consists of all forms of income that are collected or charged on a user pay basis such as parking charges, processing fees, license fees, and rental of halls and business space; and others include earnings from investment as savings or fixed deposits in financial institutions; fines and compounds.

The third category comprises the receipt of grants from state or federal government. Grants are given for the purpose of administration and maintenance, and development expenditure. Grants that are currently provided include the Annual Equalization Grant (AEG) and road maintenance grants. The former is provided by the Ministry of Housing and Local Government and the latter by the Ministry of Finance based on the length of state and federal roads serviced by the local authority. AEG is an unconditional grant while the road grant is conditional. The current AEG formula was implemented from 2007 based on the formula below (Local Government Department 2008):

$$\text{AEG Grant} = \alpha \{(NA \times P_t)\} + \{U \times P_t \times \text{SIN}\}$$

where α = contribution rate by the federal government ($0 \leq \alpha \leq 1$)

NA = expenditure indicator by local authority per resident

P_t = estimate of population size in the local authority area in year t

U = weights on uniqueness of local authority function

SIN = social invest needs

Using the current formula, the grant which is proportional to the current population size is subject to a maximum of RM5 million a year.

All local authorities are eligible to apply for development expenditure from the Ministry of Housing and Local Government (Arpah 2008). Development projects that qualify for this grant are those dealing with infrastructure; social facilities; cleanliness and beautification projects; purchase of equipment or machinery; computerization; and for the purpose of sustainable development. However, grants are also made by the Ministries of Tourism, Youth and Sports, and Rural Development. Total allocations for local government from the Ministry of Housing and Local Government in the Eighth and Ninth Malaysia Plan are shown in Table 1.

Table 1: Development Budget in Eight and Ninth Malaysia Plans
for Local Authorities, 2000-2010

Type of Project	Eighth Malaysia Plan (RM million)	Ninth Malaysia Plan (RM million)
Infrastructure	1,233.2	1,000.0
Cleanliness, Beautification and Landscaping	23.0	30.0
Solid Waste Management	921.1	3,300.0
Traditional Village	118.0	200.0
Local Agenda 21	1.8	5.0
Public Safety	1.6	1.6
New Villages	107.6	200.0
e-Local Government	-	15.0
Total	2,417.2	4,751.6

Source: Arpah 2008

One point to note is that the current local government system depends significantly on external grants while there are little or hardly any funds from the local authority itself to meet development expenditure.

It is important to examine the level of financial autonomy that a local authority must have in order to be self-sustainable. Financial autonomy refers to total revenue from direct taxes and non-tax sources compared with the total revenue of the local authority (Phang *et al.* 1996). It is these sources of revenue that are directly under the control of the local authority. The average financial autonomy of local government for Malaysia was only 74 per cent (Figure 2) which is slightly higher than its neighbour Thailand. South Africa, Kenya and Columbia have more financial autonomy than Malaysia. A comparison of financial autonomy of four cities overseas and in Malaysia is shown in Table 2. Kuala Lumpur and George Town possess a very high rate of financial autonomy compared with Hong Kong, Melbourne, Seoul and Toronto. For smaller local authorities, the level of financial autonomy is much lower as they depend very much on transfers from the federal government (especially Bandar Baharu and Labis). Financial autonomy is one of the most important indicators out of 13 others in the study of local authority performance in Malaysia (Kuppusamy 2008a).

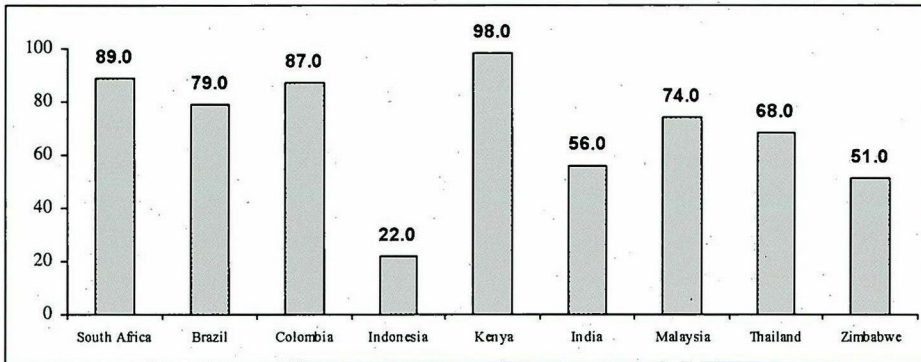


Figure 2: Comparison of Local Government Financial Autonomy in Selected Countries (per cent)

Table 2: Source of Revenue for a Few Cities

City	Source of Revenue			Financial Autonomy (a) + (b)
	Taxes (a)	Non-Tax Revenue (b)	Grants/Transfers (c)	
Hong Kong (1999)	53.0	26.0	21.0	79.0
Melbourne (1999)	54.0	43.0	3.0	97.0
Seoul (1999)	59.7	23.0	17.3	82.7
Toronto (2000)	44.1	22.3	33.6	66.4
Kuala Lumpur (2003)	63.0	28.8	8.2	91.8
George Town (2005)	67.8	31.0	1.2	98.8
Putrajaya (2006)	24.5	24.3	51.2	48.8
Subang Jaya	76.8	18.5	4.6	95.4
Sungai Petani (2005)	69.4	22.8	7.8	92.2
Temerloh (2005)	63.1	29.6	7.3	92.7
Kulai (2005)	85.5	12.4	2.1	97.9
Bandar Baharu (2005)	20.3	39.4	40.3	59.7
Cameron Highlands (2005)	51.9	40.1	8.0	92.0
Labis (2005)	37.2	11.9	50.9	49.1
Kuala Selangor (2005)	48.6	28.0	23.3	76.7

Note: The statistics are only indicative as the base year under investigation differs according to city. The Urban Council of Hong Kong and the Regional Council of Hong Kong has been downgraded from being a local government to a department since 1999.

Sources: Westfall and de Villa (eds.) 2001; DBKL 2003; Putrajaya Corporation 2006; www.toronto.ca/finance/index.htm.

Expenditure

In general terms, local government expenditure can be divided into administrative expenditure (current expenditure) and development expenditure. It is known that most of the local authorities all over the world have little to spend and are thus constrained by their revenue while some are forced to source loans and other funds to cushion the deficits. The administrative expenditures are recurrent expenditures that are spent on emolument, transportation costs, rentals, utilities, supplies, maintenance, professional services, insurance and others. In Malaysia, emolument takes about 40 per cent of total expenditure for district councils and this figure is 30 per cent for city and municipal councils in 2000.

Table 3 presents the extent of current and development expenditure in Kuala Lumpur, Putrajaya and George Town as against some other cities in the region. Putrajaya has a relatively high per capita expenditure in both categories as it is built as an impressive and expensive administrative city supported by heavy maintenance and upgrading expenses. Kuala Lumpur which is known to spend heavily on both operating and development expenditure is only reasonably higher than George Town. Other smaller cities in the country (not shown in the table) spend much less than George Town. However, Melbourne is seen to spend much more than Putrajaya.

Financial strength has a significant influence on what the local authorities can

Table 3: Per Capita Expenditure by Selected Cities

City	Per Capita Expenditure		
	Operating Expenditure (USD)	Development Expenditure (USD)	Total (USD)
Hong Kong	1,053.00	3,171.00	4,224.00
Melbourne	1,200.00	6,680.00	7,880.00
Seoul	216.48	152.55	369.03
Hanoi	20.30	62.42	82.72
Kuala Lumpur (2003)	89.18	119.82	209.00
George Town (2005)	26.56	87.76	114.32
Putrajaya (2006)	3,466.47	1,708.63	5,175.10

Note: Figures shown based on latest available data from the respective sources. The data is only indicative as the base year under investigation is different according to city.

Sources: Westfall and de Villa (eds.) 2001

deliver. One influence is that of employment. With a small financial capacity, a local authority can only employ a few employees, and this in turn affects its ability to deliver the type of services. Local governments of large cities can afford a sizeable workforce. Kuala Lumpur has close to 10,000 employees, while there are smaller towns in the country which employ fewer than 50 people. The ratio of employees to residents in Kuala Lumpur, George Town and Ipoh are 1:180; 1:190 and 1:200 respectively. For eight municipal councils and 19 district councils, the average ratios are 1:350 and 1:440 respectively. Likewise, in terms of the ratio of professional officers to the number of residents served, each officer in district councils serves an average of 102,000 people compared with 23,600 for municipal councils. The corresponding ratios for Kuala Lumpur, George Town and Ipoh are 1:4,100; 1:8,400 and 1:25,200 respectively. The issue of manpower size and the need for more professionals in local authorities in Malaysia have been raised for some time now, including in the NCLG. The issue of manpower has often been addressed on a piecemeal basis, but limited resources would mean that the problem will persist for some time yet.

However, it is believed that many of the services can easily be outsourced, though not necessarily through privatization. In the future, it can be expected that local authorities will embark more on outsourcing to expand the range of mandatory and obligatory services and at the same time to reduce its need for a large workforce. With outsourcing, fewer employees will be needed to supervise, monitor and enforce local government functions. Alternatively, some local authorities are turning to the residents to provide the services under the Local Agenda 21 concept. What is ultimately necessary is to provide the required set of services most effectively for the benefit of the stakeholders.

Local Authorities as Agents for Development

Local authorities are non-profit agencies whose function is to provide services for the people. As an agent of development, the local authority has been empowered by law (Town and Country Planning Act 1976, Act 172) to control and regulate town planning and to approve application for planning permission, development and renovation of premises. In this manner, the local authority is able to regulate the type of development in a city, adhere to national policies and at the same time to obtain funds to administer the city.

Planning statutory documents such as State Structural Plans, Local Plans and

Special Area Local Plans assist local authorities to regulate and administer development at the local level. At the national level, the National Physical Plan and National Urbanization Plan serve as the guideline for development agencies to plan physical development according to the needs of the local people. Some local authorities, for example Kuala Lumpur and Cameron Highlands, have embarked on housing projects in their capacity as housing developers, something which may conflict with their own role as guardians of development. On the other hand, it is common to see local authorities forging a smart partnership with the private sector to facilitate development in their area. However, for this smart-partnership to be successful, local authorities must have their own land bank (see Mohamad *et al.* 2000; Kuppusamy 2008b; 2009). The latter is a serious weakness for most local authorities as they do not have a land bank or are unable to purchase land. In most cases, local authorities have to compete with the state investment agencies for land, and state governments prefer to give land to these agencies rather than to local authorities that do not bring any returns.

Conclusion and Lessons

This paper examines some of the main concerns relating to local government in Malaysia. The issues raised are not exhaustive but are centred on the position and power of local governments, their low levels of autonomy, and the limited range of services that they can provide. Additionally, there is also an increasing demand for greater public participation in local authority affairs in the country.

The current system of local government in Malaysia is something of a misnomer as members of local councils including the mayors/presidents are appointed by the state governments rather than elected by the people. It is noted that those appointed to serve are not always knowledgeable on matters relating to the management of local government. With or without elections, it is necessary to establish a national local government training institute as soon as possible. Training will improve the effectiveness of local government so that it is not treated merely as a government agency.

To build public confidence in the local government, there is a need for greater participation of the public and their role in scrutinizing its administration and finance. Greater openness, transparency and acceptance of the notion of accountability to the people are necessary to spearhead local government development in the future. While there are efforts along this direction, there is

resistance from the management of local authorities. The federal government is indifferent to the call for change. Instead, there is a sense of hypocrisy in the structure of local government that falls under the federal government itself, namely, City Hall of Kuala Lumpur, Putrajaya Corporation and Labuan Corporation, all of which fail to reflect the importance of people representation in their councils. Much needs to be done by the central government itself to inculcate greater public representation in local government. Only then will it encourage public participation at the local level of government.

Local government finance is a serious issue that impinges on the operation of a local authority. Most local authorities suffer from a shortage of revenue and their ability to increase expenditure is therefore limited. It is necessary for local authorities to move away from the concept of providing traditional services to one that can be recognized as corporate services such as the control of development, modernizing urban services, urban planning, and protecting the environment. This shift of emphasis does not mean abandoning traditional services but instead to outsource them to the private sector under strict supervision of the local authorities. To respond to current needs, it is necessary that local authorities reduce their workforce and put greater reliance on skilled personnel to plan and deliver corporate services with the participation of the private sector and the residents.

References

- ARPAH binti Abdul Razak 2008. The role and function of local government in Malaysia, paper presented at the *Japan-Malaysia Local Administration Seminar 2008*, Kuala Lumpur, 27-28 August.
- Dewan Bandaraya Kuala Lumpur (DBKL) 2003. *Laporan Tahunan dan Penyata Kewangan DBKL Tahun 2003*.
- KLUGMAN, J. 1994. *Decentralisation: A Survey of Literature from a Human Development Perspectives*, Occasional Paper 13, Human Development Report Office, UNDP.
- KUPPUSAMY, S. 2000. Managing the challenges of the local government administration in Malaysia, *Journal of Asia-Pacific Studies* (Japan), 7: 63-76.
- 2006. The shrinking of local government services and functions in Peninsular Malaysia. *INTAN Management Journal*, 8(1): 99-122.
- 2008a. *Measuring Performance of Local Authorities Using Composite Performance Index and Perceived Performance Score*. Unpublished Ph. D. thesis, University Putra Malaysia.
- 2008b. Sustaining local government finance: a comparison of Malaysia, Cambodia and China, paper presented at ICS International Conference on Facing the China Challenge: Exploring Opportunities and Issues for Global Cooperation and Collaboration, University of Malaya, 2-3 December.

- 2009. PPP: the right marriage between local government and the private sector?, paper presented at the International Conference on Public-Private Partnership, Petaling Jaya, 15-16 January.
- MOHAMAD bin Saib, ROSLAN Abd Aziz and KUPPUSAMY Singaravelloo 2000. Privatisation of property development: experience of the Kuantan Municipal Council. In *East and Southeast Asia Network for Better Local Governments. New Public Management: Public Private Partnership*, Makati City, Philippines: Konrad-Adenauer-Foundation.
- NORRIS, M.W. 1980. *Local Government in Peninsular Malaysia*. London: Gower Publishing Co.
- PHANG, S. N. 1989. *Sistem Kerajaan Tempatan di Malaysia*, Kuala Lumpur: Dewan Bahasa dan Pustaka.
- KUPPUSAMY, S. and NORRIS, M.W. 1996. Metropolitan management of Kuala Lumpur. In *The Dynamic of Metropolitan Management in Southeast Asia*, edited by J. Ruland, Singapore: Institute of Southeast Asian Studies.
- and NORRIS, M.W. 1988. The restructuring of local government in West Malaysia and its impact on the recruitment of personnel, *Jurnal Antropologi dan Sosiologi*, 16: 33-40.
- Putrajaya Corporation 2007. *Annual Report 2006*, website.
- SHAFRUDDIN, B.H. 1987. *The Federal Factor in the Government and Politics of Peninsular Malaysia*, Kuala Lumpur: Oxford University Press.
- TAYLOR, W.C. 1949. *Local Government in Malaya*. Alor Star: Kedah Government Press.
- WESTFALL, M. S. and de VILLA, V (eds.) 2001. *Urban Indicators for Managing Cities: Cities Data Bank*, Manila: Asian Development Bank.