

Is Penang's outstanding economic stewardship a mirage?

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In a bid to boost Penang's revenue, the current financial practices and policies of the state government, if not reversed, could likely cause long-term damage instead.

When Pakatan Rakyat (PR) wrested control of five states in the 2008 General Election, it provided a perfect platform for the Opposition coalition to showcase its ability to govern. Many Malaysians were eager to see how PR would perform, especially in Penang and Selangor, two of the most economically advanced states in the country.

Within a few years, reports of outstanding financial management in Penang by the DAP-led state government started to emerge. Media organisations, both local and foreign, reported that under new Chief Minister Lim Guan Eng, the PR government had cleaned up the books, eliminated debts and corruption, boosted revenues and increased state coffers by several folds.

Speaking at the 7th Annual Corporate Governance Summit, Lim revealed the secret behind the success – the state government's Competency, Accountability and Transparency (CAT) principles. He proudly pointed out that since PR took over the state, it had recorded budget surpluses every year.

The PR state government, according to Lim, had transformed Penang into a shining model of good governance and one far superior to other Barisan Nasional-led state and Federal governments.

So how did Penang manage to achieve stellar results within such a short period of time? What are the important lessons that can be learnt from Penang in managing public finances? This analysis attempts to answer all these questions by studying Penang's financial performance from the year 2007 to 2014 based on the state's financial statements and the Auditor-General's audit reports.

In particular, we will examine three key elements of the state's financial statement – Revenue, Expenditure and Consolidated Revenue Account. We will use the year 2007 as the baseline for comparison since it was the last full year of administration by the previous BN state government. For the current state government, 2014 data is used as the benchmark as it is the latest fully-audited financial statement available at this point of time.

Revenue

For the year 2007, the state's revenue stood at RM 295.9 million and by 2014, it rocketed to an astounding RM 799.7 million. This translates to an increase of RM 503.8 million over seven years and a Compound Annual Growth Rate (CAGR) of 15.26%. This is indeed an impressive achievement by any standard.

Let's dive deeper into the state's financial statements to understand how Lim was able to engineer such an outstanding feat of financial management.

When we analyse the revenue, two particular items immediately stand out – land sales and quit rent. It quickly becomes apparent from these numbers that the state government has been selling public lands to private developers at unprecedented rates over the last several years. These massive land sales alone contributed hundreds of millions of ringgit to the state annually.

For example, for the years 2012, 2013 and 2014, land sales brought in RM206.1 million, RM210.8 million and RM300.2 million respectively. In a complete contrast to this, there were no land sales in the year 2007.

In their relentless effort to boost revenue, the state had also tripled infrastructure development charges, doubled the rezoning fees to 50%, hiked the land conversion premium and drastically increased the density for property development (plot-ratio).

All these measures contributed significantly to the state's revenue stream – in the last several years quit rent and land conversion premium charges added another RM150 million annually to the state's coffers.

Scrutinising the financial statements further, we discovered several highly irregular transactions and practices. For example, in the 2011 Financial Statement, there was a

transaction which many might have interpreted as “creative accounting”. The state, for some unknown and unexplained reasons, had closed the Trust Account and transferred the monies (RM176.12 million) into its Revenue Account, thus artificially inflating the revenue numbers. This is not an isolated case, for there were several other questionable transactions.

Expenditure

Looking at the expenditure of the Penang state government, the numbers appear to be even more striking than the data for revenue. From RM252.3 million in 2007, it ballooned to RM745.54 million in 2014 – equivalent to a three-fold increase.

When questioned about this, Lim responded that with the increase in revenue his government “was able to spend more on projects that benefitted the people”.

However, financial statements do not support the chief minister’s claim. The data clearly shows that the state spends far more on administrative charges than on development projects. The total administrative cost has sky-rocketed from RM192.5 million (2007) to RM625.5 million (2014) – an increase of 3.25 times. The current government spends almost 75% of its revenue on administration while their predecessors only spent around 65% of the revenue on administration.

At the same time, the expenditure for development projects increased by a mere 1.5 times (RM129.4 million to RM192.3 million) over the last seven years. Taken as a percentage of revenue, the current state government spends far less on development than their predecessors (PR’s 24% vs BN’s 44%). In fact, instead of increasing, the state has actually reduced development spending in 2014.

As such Lim’s claim that the state had increased spending on people-centric projects in tandem with the rise in revenue was clearly wrong and misleading.

Further deep-diving into the bloated administrative spending throws out more surprises. Emolument, which includes the salaries, bonuses, allowances and other fees paid to state leaders and public servants, doubled to a massive RM142.3 million in 2014.

Even more worrying was that fixed expenses had increased by a stunning 4.5 times to RM481.1 million. The financial statements do not provide details on this

spending, though the A-G's report indicated that some of the increase came from increases in salaries, allowances and additional new expenses.

Consolidated Revenue Account

Consolidated Revenue Account is the term used for the public sector's Profit and Loss Account and it shows the total revenue, total expenditure and the nett balance. For Penang, the account shows a remarkable increase over the last seven years. From RM373.6 million in 2007, it has risen to RM880.6 million in 2014. While the CM is correct in saying that the state has been recording surpluses every year since 2007, this is also true for his predecessor as well. As such, the claim that Penang was almost bankrupt when Lim took over is too evidently inaccurate as the state had RM373.6 million at the end of 2007.

Summary and Conclusion

Penang has seen a rapid increase in its revenue and significant expansion of its Consolidated Revenue account balance since Lim Guan Eng became Chief Minister. However, detailed analysis of the state's financial statements reveal that these achievements were not due to excellent management skills, the much-touted CAT principles or policy-making but rather to some highly questionable financial practices.

The revenue is being driven by the unsustainable and irresponsible action of selling public land to private companies. Most of these land sales were made to housing and commercial project developers and resulted in disastrous socio-economic consequences such as over-development, severe environmental degradation, sky-rocketing property prices, traffic congestion, destruction of heritage, decline in quality of life, etc.

While Lim and his fellow Pakatan leaders have criticised the Federal government for its bloated public service and irresponsibility in spending public funds, Penang's own financial statements show the state government to be even more bloated and wasteful.

For example, it was reported that the CM himself has 20 Special Officers. The state also created numerous new agencies and institutes or expanded existing ones, filling them mainly with political members and supporters.

The state had expanded the JKKK (Village Development and Security Committee) from 149 to 291 areas while at the same time significantly increasing their salaries and allowances. It was reported that the state allocated RM12.6 million for JKKK alone last year. This appears to be a politically motivated move as most, if not all, JKKK members are said to belong to political parties under Pakatan Harapan.

The state government also upgraded the official cars for state leaders (including a luxurious S-Class Mercedes Benz for the CM) and more than doubled salaries and allowances for elected representatives and executive councillors. Mind-bogglingly, it also handed out welfare aid to the state's notorious taxi and rickshaw drivers, an action that critics slammed as "vote buying".

Questions also were asked about the RM330 million the state spent merely to do a "feasibility study and detailed design" on the Penang Tunnel project.

I believe these are merely the tip of the iceberg as a more detailed examination of the state's books would reveal more such cases of mismanagement and wasteful spending.

In conclusion, the claim of outstanding economic stewardship of Penang appears to be a mirage carefully engineered by the state government. Worse, the current financial practices and policies of the state government, if not reversed, can cause irreparable long-term damage to the state.

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