



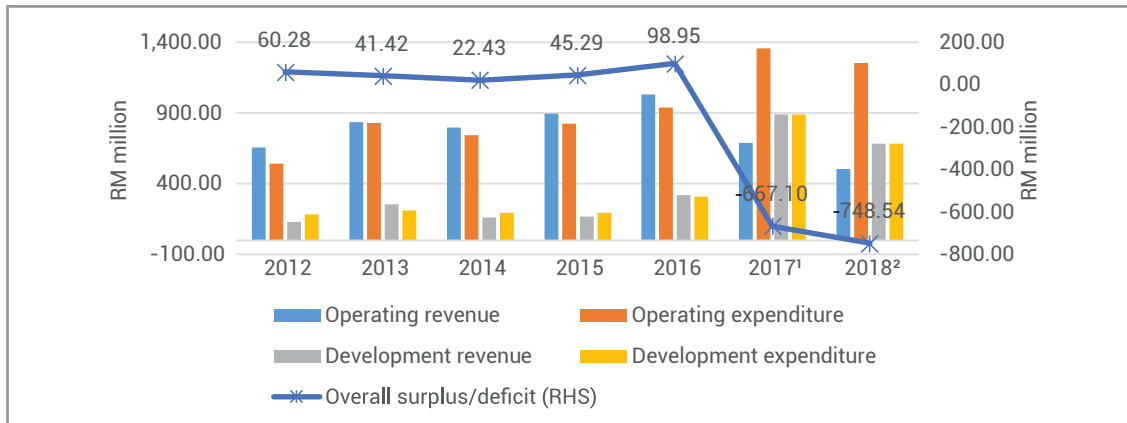
# State Financial Performance

## 5.1 Financial position

The Penang state government continues to enhance the economy of Penang through entrepreneurial and welfare thrusts that promote 3Ps partnership – public sector, private sector, and people – in most economic and social development projects. The concept of the competency, accountability and transparency (CAT) governance remains as the state's charter to further elevate the performance of its public services. The government is also committed to allocating effective provisions for various socio-economic development projects that synergise pro-job, pro-growth, and pro-poor for the well-being of the people of Penang.

Based on the actual financial statement, the state government registered a surplus of more than double at RM99 million in 2016 compared to RM45.3 million in 2015, making it the largest increase since 2012 (Figure 5.1). In 2017, the fiscal deficit was estimated to be RM667.1 million. However, compared to the 2016 budget, this deficit would be a massive rise of 128.4% from RM292 million in 2016. Looking at the Penang's financial history, the state government has had actual fiscal surpluses since 2008 – except for 2010 – despite having a fiscal deficit budgeted every year.

Figure 5.1 Penang state financial position, 2012–18



Notes: 1 Revised estimate.

2 Budget estimate.

Source: Penang State Financial Statements, 2012–16 and Penang State Budgets, 2017–18.

In 2017, total revenue increased by an estimated 16.9%, primarily attributed to a significant increase in development revenue. The operating revenue was expected to record a negative growth rate of 33.3%, with a larger decrease in non-revenue receipts – comprising returned expenditure and receipts from federal government agencies – and a 22.6% decline in non-tax revenue, including receipts from goods sold, licenses and permits, and dividends. In contrast, development revenue was budgeted to increase to RM887.4 million in 2017, up from RM317.2 million in 2016, with a threefold increase in transfers from the operating expenditure account to RM790 million in 2017.

The total expenditure for 2017 was also estimated to increase considerably by nearly 80%, from RM1.25 billion in 2016 to RM2.24 billion in 2017 (Table 5.1). The allocation for development expenditure increased significantly to RM887.4 million, which accounted for nearly 40% of the total state expenditure in 2017. Although the operating expenditure was estimated to increase at 44% in 2017, its share decreased significantly to about 60%,

signifying a balanced budget while advancing public sector operations effectively.

The state government has allocated significant funding to development projects such as the upgrading of water treatment plants and catchment areas by the Penang Water Authority (PBAPP), and infrastructure development in Seberang Perai area by PDC. Other major projects include road expansion projects, flood mitigation projects, telecommunication upgrades through smart applications, affordable housing, human capital through education, and others<sup>31</sup>.

## 5.2 Revenue

State revenue consists of operating revenue and development revenue. According to the 2017 Penang state budget, RM1.6 billion in estimated revenue is to be collected in 2017, reflecting an increase of about 17% from the actual state revenue in 2016 (Table 5.2). Of this, development revenue made up about 56% of the state revenue collection and the remaining 44% accounted for operating revenue.

**Table 5.1 Penang state finance position, 2016–18**

	RM million			Change (%)		
	2016	2017*	2018**	2016	2017*	2018**
Operating revenue	1,029.85	687.41	503.76	14.7	-33.3	-26.7
Operating expenditure	940.63	1,354.51	1,252.30	13.9	44.0	-7.6
<b>Operating balance</b>	<b>89.22</b>	<b>-667.10</b>	<b>-748.54</b>	-	-	-
Development revenue	317.19	887.44	684.97	88.4	179.8	-22.8
Development expenditure	307.46	887.44	684.97	57.8	188.6	-22.8
<b>Development balance</b>	<b>9.73</b>	<b>0.00</b>	<b>0.00</b>	-	-	-
Total revenue	1,347.04	1,574.85	1,188.74	26.4	16.9	-24.5
Total expenditure	1,248.09	2,241.95	1,937.28	22.3	79.6	-13.6
<b>Overall balance</b>	<b>98.95</b>	<b>-667.10</b>	<b>-748.54</b>	-	-	-

Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Financial Statement, 2016 and Penang State Budgets, 2017–18.

<sup>31</sup> Penang State Government (2017), Penang Budget Speech 2017. Retrieved from <https://www.penang.gov.my/dmedia/359629-bajet-tahun-2017-negeri-pulau-pinang>

**Table 5.2 Breakdown of state government revenue, 2016–18**

	RM million			Change (%)			Share (%)		
	2016	2017*	2018**	2016	2017*	2018**	2016	2017*	2018**
Operating revenue	1,029.85	687.41	503.76	14.7	14.7	-26.7	76.5	43.6	42.4
Development revenue	317.19	887.44	684.97	88.4	88.4	-22.8	23.5	56.4	57.6
<b>Total revenue</b>	<b>1,347.04</b>	<b>1,574.85</b>	<b>1,188.74</b>	<b>26.4</b>	<b>26.4</b>	<b>-24.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Financial Statement, 2016 and Penang State Budget, 2018.

In terms of growth rates, revenue for development purposes was estimated to more than double the development revenue collected in 2016. This is primarily attributed to the increase in estimated transfers disbursed from operating expenditure, which was a more than threefold increase from RM245 million in 2016 to RM790 million in 2017. In contrast, operating revenue collection was anticipated to decline by 33.3% to RM687.4 million in 2017.

#### Operating revenue

Operating revenue comprises tax revenue, non-tax revenue, and non-revenue receipt. With RM687.4 million in revenue budgeted in 2017, non-tax revenue made up the largest share of total operating revenue collection in Penang (65.3%), followed by tax revenue (20.2%) and non-revenue receipt (14.5%).

Non-tax revenue remains the main source of state government revenue. It was projected to decrease 22.6% to RM448.9 million in 2017 (2016: -2%; RM579.8 million). As can be seen in Table 5.3, receipts from goods sold, constituting the largest share of total state revenue (39.8%), was estimated to decrease considerably by nearly 30% to RM273.4 million in 2017 (2016: -7.6%; RM388.8 million).

While the collection of special land ownership remains to contribute most of the non-tax revenue, the collection was expected to shrink by nearly 28% to RM205 million in 2017 (2016: RM284.5 million). Services payment receipts were estimated to make the second-largest share of non-tax revenue, with a positive growth rate of 7.8% in 2017. This was partly due to the increase in the collection of land transfer registration fee from RM32.2 million in 2016 to RM41.4 million in 2017.

Meanwhile, the share of estimated investment income increased to 9.2% in 2017 (2016: 6.9%). This component, however, was estimated to decrease by 10.9% to RM63 million in 2017, largely to the result of a decrease in interest earned from fixed deposits. Likewise, licenses and permits were estimated to decrease by 17% to about RM11 million in 2017 (2016: RM13.2 million). Nonetheless, the reduction in estimated non-tax revenue is also underpinned by continued efforts made by the state government in collecting fines and penalties. This had been projected to increase by 11.5% to RM7.4 million in 2017 (2016: RM6.6 million), representing the smallest share in non-tax revenue. This is because of an increase in back debt revenue collection as a result of late payments made for quit rent, drainage, and irrigation tax, with the value doubling to RM4.8

Table 5.3 State government operating revenue, 2016–18

	RM million			Change (%)			Share (%)		
	2016	2017*	2018**	2016	2017*	2018**	2016	2017*	2018**
<b>Tax revenue</b>	<b>133.11</b>	<b>138.94</b>	<b>134.77</b>	<b>3.3</b>	<b>4.4</b>	<b>-3.0</b>	<b>12.9</b>	<b>20.2</b>	<b>26.8</b>
Direct tax	117.61	121.94	118.77	2.6	3.7	-2.6	11.4	17.7	23.6
Indirect tax	15.50	17.00	16.00	8.7	9.7	-5.9	1.5	2.5	3.2
<b>Non-tax revenue</b>	<b>579.80</b>	<b>448.93</b>	<b>273.64</b>	<b>-2.0</b>	<b>-22.6</b>	<b>-39.0</b>	<b>56.3</b>	<b>65.3</b>	<b>54.3</b>
Licenses and permits	13.23	10.97	14.35	15.5	-17.0	30.7	1.3	1.6	2.8
Service payments	80.09	86.31	80.99	-2.3	7.8	-6.2	7.8	12.6	16.1
Receipts from goods sold	388.83	273.42	103.63	-7.6	-29.7	-62.1	37.8	39.8	20.6
Rentals	7.96	7.89	7.08	7.2	-1.0	-10.2	0.8	1.1	1.4
Investment income	70.62	62.94	60.35	7.9	-10.9	-4.1	6.9	9.2	12.0
Fines and penalties	6.63	7.40	7.25	40.0	11.5	-2.0	0.6	1.1	1.4
Local contributions	12.44	0.00	0.01	-	-100.0	245.8	1.2	0.0	0.0
<b>Non-revenue receipts</b>	<b>316.93</b>	<b>99.54</b>	<b>95.35</b>	<b>79.1</b>	<b>-68.6</b>	<b>-4.2</b>	<b>30.8</b>	<b>14.5</b>	<b>18.9</b>
Returned expenditure	42.35	2.04	0.34	245.0	-95.2	-83.4	4.1	0.3	0.1
Receipt from federal government agencies	274.58	97.50	95.01	66.7	-64.5	-2.6	26.7	14.2	18.9
<b>Total operating revenue</b>	<b>1,029.85</b>	<b>687.41</b>	<b>503.76</b>	<b>14.7</b>	<b>-33.3</b>	<b>-26.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Budgets, 2017 and 2018.

Tax revenue collection is the second-largest component in state revenue, accounting for about 20% of the total state revenue, with an estimated growth rate of 4.4% in 2017. Tax revenue collection at the state level is limited to quit rent, arrears, irrigation, drainage, and entertainment. A large proportion of the projected RM139 million in tax revenue collected is made up of direct tax – predominantly quit rent – which constitutes about 88% of the collection, followed by indirect tax – namely entertainment duties (12.2%) (Table 5.3). Tax collection from quit rent and entertainment activities – largely through cinemas in the state – were expected to increase in 2017 at 3.4% and 9.7%, respectively, in 2017, both growing at a faster rate than in 2016. In particular, quit rent constitutes RM120.8 million while entertainment levies are RM17 million.

Within operating revenue, non-revenue receipts make up the smallest chunk in state revenue, covering only two sub-components: returned

receipts from the expenditure account and receipts from federal government agencies. With a total of RM99.5 million, the latter consistently leads in non-revenue receipts, comprising 98%, while the former accounts for the remaining 2%. However, non-revenue receipts were estimated to decelerate substantially at about 69% in 2017 due to lower receipts in returned expenditure and federal government funding (Table 5.3). Specifically, the receipts received from the federal government is expected to include receipts based on population size (RM25 million), 10% service charge on federal projects (RM20 million), receipts to support 50% of operating expenditure of government offices (RM30 million), and other receipts (RM10 million) given for state road repairs, the state museum, and the state library, to name a few. Despite Penang being one of the country's major economic drivers, it received the third-lowest funding from the federal government, trailing Perlis and Malacca.

<sup>32</sup> The local contribution has been made available since 2015. This comes in the form of donations to the state government from companies, voluntary organisations, and individuals. The figures vary over the years. For instance, about RM71,529 was received in 2015, which then increased to RM12.4 million in 2016. This contribution is estimated to decline to RM7,020 in 2018. The large variation was mainly due to the inconsistent contributions from the companies.

### Development revenue

Development revenue is basically collected from three main sources: state source, federal loans, and federal grants. In 2017, the total development revenue was estimated to more than double to RM887.4 million, from RM317.2 million in 2016 (Table 5.4). State source remains the key contributor to the development income, which was estimated to represent 98.5% of the total development income, followed by federal grants – given based on overall state economic development (1.5%) – consistently set at RM13.5 million per year since 2012.

The state source is mainly driven by the contribution transferred from operating expenditure, with an increase of more than threefold to RM790 million in 2017 – a historic high made to the development fund. Apart from this, the state was also estimated to collect revenue from development projects, such

as the selling of raw water valued at RM20.5 million. Others include recoveries of loans from MPSP, PBAPP, and PDC worth about RM8.9 million; and lastly through the selling or collecting of rentals of low-cost houses (RM2.5 million). In addition, about 6% of the total estimated development income were left over from the estimated development budget in 2016, which recorded as much as RM52 million.

The Penang state government has not borrowed funds from the federal government since 2015 (Figure 5.2), indicating that Penang is a financially self-sufficient state with high levels of efficiency in its financial management. Similarly, the state government did not apply for loans from the federal government for the 2017 financial year. According to the 2016 Auditor-General's Report, Penang had zero loan arrears to the federal government, while Pahang and Kedah had the highest amounts of loan arrears in Malaysia<sup>33</sup>.

**Table 5.4 Sources of development revenue, 2016–18**

Sources of estimated income	RM million			% Change			% Share		
	2016	2017*	2018**	2016	2017*	2018**	2016	2017*	2018**
Federal loans	-	0.00	0.00	-	-	0.0	-	0.0	0.0
Federal grants based on economic development, infrastructure and security of life stage	13.52	13.52	13.52	0.0	0.0	0.0	4.3	1.5	2.0
<b>State source</b>	<b>303.67</b>	<b>873.92</b>	<b>671.46</b>	<b>115.8</b>	<b>187.8</b>	<b>-23.2</b>	<b>95.7</b>	<b>98.5</b>	<b>98.0</b>
Contribution to development fund (transferred from operating expenditure)	245.00	790.00	600.00	104.2	222.4	-24.1	77.2	89.0	87.6
Sale/rent-to-own of low-cost houses	2.63	2.50	2.50	-9.1	-4.9	0.0	0.8	0.3	0.4
Loan recoveries (PBAPP, MPSP, PDC)	6.64	8.86	10.06	17.7	33.6	13.5	2.1	1.0	1.5
Lease receipts (rental paid by PBAPP)	19.41	-	-	59.1	-	-	6.1	-	-
Transfers from trust fund	30.00	-	-	-	-	-	9.5	-	-
Raw water fee	-	20.50	20.00	-	-	-2.4	-	2.3	2.9
Remaining allocation from development fund	-	52.06	38.90	-	-	-25.3	-	5.9	5.7
<b>Total development revenue</b>	<b>317.19</b>	<b>887.44</b>	<b>684.97</b>	<b>92.0</b>	<b>179.8</b>	<b>-22.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

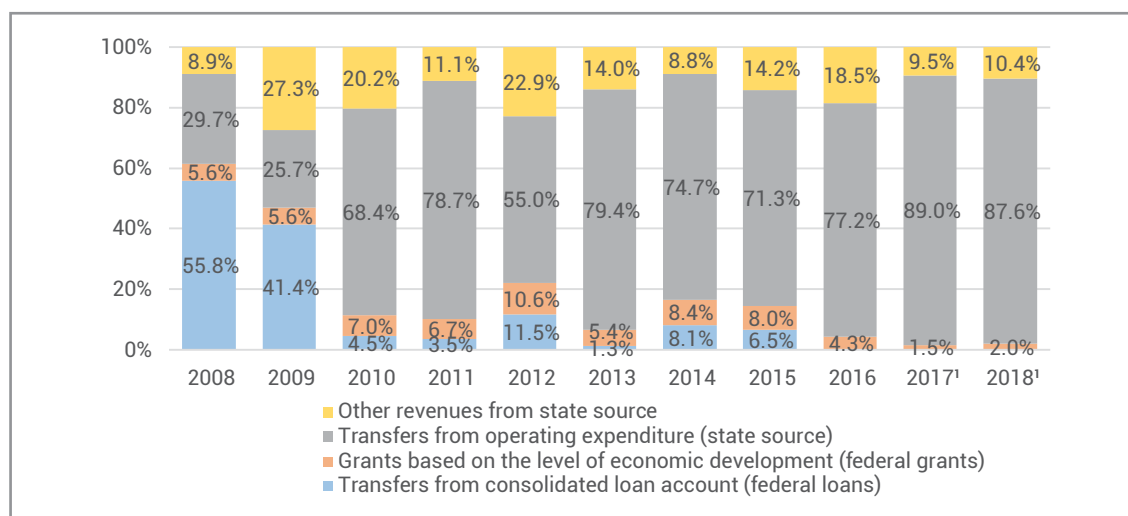
Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Financial Statement, 2016 and Penang State Budgets, 2017 and 2018.

<sup>33</sup> Debt to federal government: Penang, Selangor owe the least (2017, July 31). Free Malaysia Today. Retrieved from <http://www.freemalaysiatoday.com/category/nation/2017/07/31/debt-to-federal-govt-penang-selangor-owe-the-least/>

Figure 5.2 Share of the sources of development revenue, 2008–18



Note: <sup>1</sup> Budget estimate.

Source: Penang State Financial Statements, 2008–16 and Penang State Budgets, 2017–18.

### 5.3 Expenditure

State expenditure consists of operating and development expenditure. In 2017, it was estimated that the total state expenditure would increase by approximately 80%, nearly tripling the development expenditure in 2016 (Table 5.5). While growing at a slower pace than development expenditure, a significant portion of operating expenditure was anticipated to transfer to the development funds as part of development income. After subtracting the contribution to development funds from operating expenditure, it is found that the total operating expenditure decrease by an estimated 18.8% to RM564.5 million in 2017, down from RM695.6 million in 2016.

In addition, the Penang state government also aims to balance its allocation on infrastructure development and operation expenses. As can be seen in Table 5.5, the share of operating expenditure was expected to decrease significantly from 69.3% in 2016 to about 39% in 2017, while the share of development expenditure was estimated to vastly increase from 30.7% in 2016 to 61.1% in 2017. In comparison to the federal fiscal budget, the ratio of development to operating expenditure was 18:82 – where only 18% of the budget was allocated for development purposes, while operating expenditure accounted for the remaining 82% in 2017.

Table 5.5 Breakdown of state expenditure, 2016–18

	RM million			% Change			% Share		
	2016	2017*	2018**	2016	2017*	2018**	2016	2017*	2018**
Operating expenditure	940.63	1,354.51	1,252.30	13.9	44.0	-7.6	75.4	60.4	64.6
Development expenditure	307.46	887.44	684.97	57.8	188.6	-22.8	24.6	39.6	35.4
<b>Total expenditure</b>	<b>1,248.09</b>	<b>2,241.95</b>	<b>1,937.28</b>	<b>22.3</b>	<b>79.6</b>	<b>-13.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Contribution to development funds	245.00	790.00	600.00	104.2	222.4	-24.1	-	-	-
Operating expenditure (exclude the contribution to development funds)	695.63	564.51	652.30	-1.5	-18.8	15.6	69.3	38.9	48.8
Development expenditure	307.46	887.44	684.97	57.8	188.6	-22.8	30.7	61.1	51.2
<b>Total expenditure (exclude contribution to development funds)</b>	<b>1,003.09</b>	<b>1,451.95</b>	<b>1,337.28</b>	<b>11.4</b>	<b>44.7</b>	<b>-7.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Financial Statement, 2016 and Penang State Budget, 2018.

### Operating expenditure

Operating expenditure consists of three main components: emoluments, supplies and services, and fixed contributions – which makes up a total of over 90% of the total operating expenditure in 2017. Asset acquisition and other miscellaneous expenditure stood only at 1.5% and 1%, respectively. Operating expenditure was projected to decrease by 18.8% to RM565 million in 2017 due to a significant decrease in fixed contributions, after removing the contributions allocated to development funds.

Fixed contributions, accounting for nearly 40% of total operating expenditure, was estimated to have a negative growth rate of 42.9% from RM393 million

in 2016 to RM225 million in 2017. About 78% or RM175.4 million were allocated to the State Finance Department, which would largely be disbursed as state grants. Meanwhile, about 18% of the total fixed contributions were undertaken by the Chief Minister's Office and State Secretariat amounting to about RM41 million in 2017, which encompassed state grants and include contributions made to the state library, state museum, and state sport council. Furthermore, the Chief Minister's Office and State Secretariat also disbursed scholarship, tuition fee assistance, and rewards standing at RM2.7 million in 2017. The State Welfare Department, State Mufti Office, and State Irrigation and Drainage Department were several of the recipients under this component.



**Table 5.6 Operating expenditure, 2016–18**

	RM million			% Change			% Share		
	2016	2017*	2018**	2016	2017*	2018**	2016	2017*	2018**
Emoluments	158.60	175.95	176.96	11.0	10.9	0.6	22.8	31.2	27.1
Supplies and services	135.13	149.67	158.54	8.1	10.8	5.9	19.4	26.5	24.3
Asset acquisitions	6.06	8.44	8.60	-10.9	39.2	1.9	0.9	1.5	1.3
Fixed contributions and charges/ payments (exclude contributions to development funds)	392.90	224.54	302.01	-7.3	-42.9	34.5	56.5	39.8	46.3
Other expenditures	2.94	5.91	6.19	-61.1	101.1	4.7	0.4	1.0	0.9
<b>Total operating expenditure</b>	<b>695.63</b>	<b>564.51</b>	<b>652.30</b>	<b>-1.5</b>	<b>-18.8</b>	<b>15.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes: \* Revised estimate.

\*\* Budget estimate.

Source: Penang State Financial Statement, 2016 and Penang State Budget, 2018.

Emoluments made up the second-largest share of the operating expenditure in 2017. Though a lower operating expenditure was tabled, the share of emoluments is expected to increase from 22.8% to 31.2%. This could be due to annual salary revisions resulting a bigger budget being tabled for emoluments. This is also an increase of 10.9% to RM176 million in 2017, up from RM159 million in 2016.

With the exception of the State Finance Department, all state departments were expected to expand in emoluments, with the Penang Veterinary Services and Penang Botanical Gardens having the largest growth rates of 25.8% and 24.2%, respectively. However, the Chief Minister's Office and State Secretariat still took up the largest share of the total emoluments (25.0%), followed by the State Public Works Department (17.2%), State Irrigation and Drainage Department (9.5%), and State Religious Office (7.6%) – which added to nearly 60% of total emoluments in 2017.

Supplies and services, which represented 26.5% of the total operating expenditure, were forecast to increase by 10.8% to RM150 million in 2017, up from RM135 million in 2016. This includes payments made to professional services, travelling and lodging, communication and utility, rentals and so forth. Out of RM150 million, the Chief Minister's Office and State Secretariat occupied the largest share of supplies and services of 45.2% due to the expenses made by the State Information and

Communication Technology Division and State Legislative Office, which accounted for RM11.5 million and RM7.1 million, respectively. The biggest portion of expenses for supplies and services in the State Information and Communication Technology Division was made by rental and maintenance, whereas the latter had its largest share spent on professional services and hospitality. Meanwhile, the State Irrigation and Drainage Department and State Finance Department took up the second- and third-largest shares of total supplies and services in 2017, which made up 14.2% and 13.8%, respectively.

While the amount of asset acquisitions and other expenditure was projected to almost double compared to the previous year, these constituted only a small share of 2.5% in 2017.

#### **Development expenditure**

The development budget is disbursed based on the approved development projects, which are carried out by the responsible state development. The Chief Minister's Office and State Secretariat, State Finance Office, State Public Works Department and State Irrigation and Drainage Department made up about 98% of the entire development expenditure in 2017, reflecting the importance of these state departments towards development in the state. In contrast, the Penang Botanical Gardens and the State Forestry Department received the smallest development allocation of RM310,000 and RM1.9 million, respectively in 2017.



With RM887.4 million budgeted for development expenditure, nearly 80% of the estimated expenditure was being undertaken by the Chief Minister's Office and State Secretariat in 2017 (Table 5.7). This would be more than five times higher than the actual development expenditure in the previous year, with 86% being allocated to the PDC in the form of development loans. Water supply projects, land acquisition, and low-cost housing projects added up to another 10% of the department's expenses (Table 5.8).

The state government also recognises the importance of digital transformation in the public sector. RM6.7 million was disbursed by the Chief Minister's Office and State Secretariat for the development of a digital government in 2017, more than doubling the RM2.8 million recorded in 2016 (Table 5.8).

**Table 5.7 Development expenditure by state department, 2016–18**

State department	RM million			% Change			% Share		
	2016	2017*	2018*	2016	2017*	2018*	2016	2017*	2018*
Chief Minister's Office and State Secretariat	133.88	707.61	420.95	99.3	428.5	-40.5	43.5	79.7	61.5
Irrigation and Drainage	13.61	14.46	12.35	2.6	6.2	-14.6	4.4	1.6	1.8
Forestry	2.06	1.90	2.07	12.5	-7.7	8.9	0.7	0.2	0.3
Penang Botanical Gardens	0.57	0.31	0.81	-63.5	-45.8	161.3	0.2	0.0	0.1
Public Works	20.22	19.78	24.76	1.5	-2.2	25.2	6.6	2.2	3.6
Religious	8.04	8.55	12.71	-3.8	6.4	48.7	2.6	1.0	1.9
Finance	123.22	128.50	205.00	60.2	4.3	59.5	40.1	14.5	29.9
Veterinary Services	2.67	2.96	2.96	-1.5	10.9	0.0	0.9	0.3	0.4
Agriculture	3.18	3.37	3.37	3.5	6.0	0.0	1.0	0.4	0.5
<b>Total development expenditure</b>	<b>307.46</b>	<b>887.44</b>	<b>684.97</b>	<b>57.8</b>	<b>188.6</b>	<b>-22.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: \* Budget estimate.

Source: Penang State Budget, 2018.

**Table 5.8 Development expenditure by top four state development and selected development projects, 2016–18**

	RM million			% Change			% Share		
	2016	2017*	2018*	2016	2017*	2018*	2016	2017*	2018*
<b>Chief Minister's Office and State Secretariat</b>	<b>133.88</b>	<b>707.61</b>	<b>420.95</b>	<b>99.3</b>	<b>428.5</b>	<b>-40.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Land acquisition	-	27.00	20.00	-	-	-25.9	-	3.8	4.8
Low-cost houses	10.45	12.49	13.84	16.2	19.5	10.8	7.8	1.8	3.3
Loans to PDC	70.00	609.00	300.00	-	770.0	-50.7	52.3	86.1	71.3
Water supply project	30.30	30.35	50.80	116.4	0.2	67.4	22.6	4.3	12.1
Penang Hill development	1.70	6.22	13.43	-57.4	265.3	116.1	1.3	0.9	3.2
Special economic projects	4.43	6.30	12.05	-48.8	42.2	91.3	3.3	0.9	2.9
Development of digital government	2.80	6.70	1.73	300.5	139.0	-74.2	2.1	0.9	0.4
<b>State Finance Department</b>	<b>123.22</b>	<b>128.50</b>	<b>205.00</b>	<b>60.2</b>	<b>4.3</b>	<b>59.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Development project/special project by state authorities	107.95	110.00	186.50	73.8	1.9	69.5	87.6	85.6	91.0
<b>Public Works Department</b>	<b>20.22</b>	<b>19.78</b>	<b>24.76</b>	<b>1.5</b>	<b>-2.2</b>	<b>25.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Repair of bridges and state roads	13.87	7.64	6.98	99.9	-44.9	-8.7	68.6	38.6	28.2
State roads	1.83	4.93	9.97	-70.7	168.6	102.4	9.1	24.9	40.3
Repair and redesign state buildings	2.87	4.86	4.62	-38.1	69.4	-5.1	14.2	24.6	18.6
<b>Department of Irrigation and Drainage</b>	<b>13.61</b>	<b>14.46</b>	<b>12.35</b>	<b>2.6</b>	<b>6.2</b>	<b>-14.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Deepen and repair of rivers	3.13	4.55	4.35	12.8	45.5	-4.4	23.0	31.5	35.2
Flood mitigation	2.84	3.57	1.81	-42.2	25.9	-49.4	20.8	24.7	14.6

Note: \* Budget estimate.

Source: Penang State Budget, 2018.

The State Finance Office constituted the second-largest share of development expenditure (14.5%), with an increase of 4.3% to RM128.5 million in 2017, up from RM123.2 million in 2016. This was mainly attributed to development projects, including special projects, approved by state authorities. It increased marginally by 1.9% to RM110 million in 2017 (Table 5.8). The Public Works Department followed with a RM19.8 million development budget, down by 2.2% over the previous year. The allocation would be disbursed specifically for the repairing of bridges and state roads, as well as the repairing and redesigning of state buildings, accounting for about

88% of total allocation in Public Works Department.

Under the Department of Irrigation and Drainage, the allocation for deepening and repairing rivers, and flood mitigation accounted for over RM8 million, or more than half of the department's development allocation. As there was a critical need to resolve flood-related matters, the state government increased the department's budget to deepen rivers and take flood mitigation measures by 45.5% to RM4.6 million and 25.9% to RM3.6 million, respectively.

## 5.4 Prospects for 2018

In 2018, the Penang state government continues to engage in various socio-economic development plans, and establish an innovative society through the state's economic catch-up plans in the areas of digital transformation and the fourth industrial revolution<sup>34</sup>. In relation to this, a larger fiscal deficit of RM748.5 million is expected to be recorded in 2018, accounting for about RM80 million more than the deficit budgeted for 2017. This is likely due to the fact that the slowdown in estimated revenue collection is outstripping the slowdown in estimated expenditure. Nonetheless, Penang state government has consistently recorded actual fiscal surpluses since 2008 except in 2010 owing to prudent spending.

Total revenue collection is forecast to decline by 24.5% to RM1.19 billion in 2018. In particular, operating revenue is estimated to decrease by 26.7% over 2017, with a significant reduction of nearly 40% in non-tax revenue – where receipts from goods sold is estimated to soften significantly due to the collection of special land ownership. Meanwhile, both tax revenue and non-revenue receipts are estimated to moderate by 3% and 4.2%, respectively, in 2018. The former is partly contributed to by a lower quit rent and entertainment tax collection, while the latter is attributed to a smaller contribution from operating expenditure account and receipts from federal government agencies.

Development revenue, on the other hand, is projected to reach RM685 million in 2018, down 22.8% from RM887 million in 2017 despite a marginal jump in its share of total revenue in 2018 (2017: 56.4%; 2018: 57.6%). The main source of development revenue is attributed substantially to the Penang state government, representing 98% of total development revenue, while only 2% is made up of grants from the federal government based on the level of economic development, infrastructure, and welfare of the people. A large share of the revenue is allocated from the transfer of the state operating expenditure account at RM600 million in 2018, which is a decrease of about 24% from the estimated 2017 budget.

Total expenditure is expected to decrease by 13.6% in 2018, with development expenditure (2018: -22.8%)

shrinking at a faster rate compared to operating expenditure (2018: -7.6%). Though operating expenditure still makes up the largest share of total expenditure in 2018 (64.6%), the state government remains dedicated to allocating about 35% of total expenditure on welfare development projects. Unlike the previous federal government, as much as 83% of total expenditure has been budgeted for operational purposes and only 17% has been allocated for development projects in 2018.

In terms of operating expenditure, all categories are expected to grow positively in 2018 compared to 2017. Specifically, the component of fixed contributions – excluding the transfer to the development revenue account – is projected to expand at a rate of 34.5%, followed by supplies and services (5.9%), asset acquisition (1.9%), and emoluments (0.6%). In addition, the fixed contributions will remain the biggest expenses, representing about 46% of the entire operating expenditure, which include scholarships, educational aid, and grants.

Socio-economic development projects budgeted in 2018 include the provisions of: increasing the number of free bus services, upgrading public space, bicycle corridors, sport complexes, skills and human capital development, the Penang Art District, seed fund for upgrading Little India, Crush Aedes Totally (CAT), flood mitigation, and the Healthy Penang Programme, among others. Some of these initiatives would be a collaboration between public and private sectors such as a new sports complex, bike corridors, and an arts and culture street mall.

While many development initiatives have been budgeted in 2018, expenditure is estimated to record a fall of 22.8% to RM685 million in 2018 (2017: RM887 million). The largest cut is expected to be seen in the Chief Minister's Office and State Secretariat, with a negative growth rate of 40.5% in 2018, followed by the Department of Irrigation and Drainage (-14.6%). In Chief Minister's Office and State Secretariat, it is found that there will be a significant cut in loans allocated to the PDC, as well as allocations for digital development. Meanwhile, more allocations will be given to low-cost housing projects (RM13.8 million), water supply projects (RM50.8 million), Penang Hill development (RM13.4 million), and special economic projects (RM12.1 million).

<sup>33</sup> 2018 Penang Budget Speech (2018). Democratic Action Party (DAP). Retrieved from <https://dapmalaysia.org/statements/2017/11/02/26019/>