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ISSUES AND CHALLENGES IN IMPLEMENTING DEVELOPMENT CHARGE: A CASE STUDY OF MANJUNG MUNICIPAL COUNCIL, PERAK; AND SUNGAI PETANI MUNICIPAL COUNCIL, KEDAH

Noor Amirah Binti Hamzah ¹ and Nurulhuda Binti Ali ²

^{1,2} Department of Estate Management, Faculty of Architecture, Planning and Surveying, Universiti
Teknologi MARA Perak Branch, Seri Iskandar 32610, Perak
Email: amirahhamzah2@gmail.com¹, nurul979@perak.uitm.edu.my²

Abstract:

Development charge is a charge imposed on any development of land or carried out in accordance with such changes at the prescribed rates due to local plans or local plan changes effect on changes in land use, density, and plot ratio or floor area in respect of any land. The amount of charge will be used in providing facilities and infrastructure in the local authority area. The aim of this research is to identify the issues and challenges in the implementation of development charge imposed by the local authority, and to recommend the solutions to those issues and challenges. This research uses the qualitative method of analysis to arrive at its findings. Interview sessions will be conducted through a semi-structured technique focused on two local authorities implementing the development charge in Perak and Kedah. All primary data is gathered from the respondents. Research findings revealed that there are (3) issues in which the imposition of rate has become the main issue in implementing development charge. The lack of knowledge by the applicant regarding the development charge has become a challenge for the local authority in implementing the development charge. The findings of this research may be of help to the relevant parties to get a better understanding about the practice of development charge in the states of Perak and Kedah.

Keywords: Development Charge; Local Authority; Land Use; Density; Plot Ratio and Floor Area

1.0 INTRODUCTION

Development charge is a certain amount of money paid to the Local Authority by any proponent if there is a Local Plan or Local Land Appropriation Change on the approval of the plan which causes the increase in value of the land for the following reasons; approval of the involvement with the conversion of a land zone that has raised the value of the land, there is a surplus of floor area from the plot ratio specified in the development plan, or there is a surplus of units above the average residential density specified in the development order. When the concept of development charge was introduced in the 1970s, it was used as a development control tool to fuel the economy at that time. The main objective is to promote development within the city and the money collected from development charges is used to improve infrastructure facilities.

1.1 Problem Statement

Development charge has been implemented in several states in Malaysia. Each state implementing development charge has their own problem regarding the issues arising from the developers and the applicants. Basically the development charge is a fund collected from the increase in land values. These are charges levied for development affecting the changes of land use, density and floor area. Most of the states use a similar method as implemented by Selangor. This is because Selangor has become the benchmark for the rest of the states in Malaysia that implement the development charge. However, each state's approach may be different according to the suitability and requirements of each state. The issues

come from the imposition of rate. The rate of charge is different between states. Other than that the issue also arose from the instalment payment of development charge. This is because, there are states that impose interest on late payments of development charge and other states do not impose interest.

2.0 LITERATURE REVIEW

2.1 Development Process

There are three stages in property development process. The first stage is the stage of planning or pre-development period. All approvals at the first stage shall be approved by the authorities before entering the second stage. The construction stage is the second stage in the development process. The development charge is imposed in the first stage of the development process. Before any development has been approved for the planning permission, the applicant needs to pay the development charge.

2.2 Provision, Act and Regulation of Development in Malaysia

The purpose of the development charge is to cover the provision, and upgrading of the costs of infrastructure and facilities in the area as a result of planning approval. The Development Charge Payment Rules have been applied in Kuala Lumpur City since 1970 in accordance with the application of Ordinance No. 46 (Essential Powers) of the Emergency, 1970. The provisions are also contained in the Federal Territory (Planning) Act, 1982 (Act 267). Every development needs planning permission. The development approval depends on the local authority. According to Ong and Mohd Rapi'ain (2007), the size of land and planning regulations in force, in addition to the location and proximity of infrastructure facilities play important roles in getting the approval.

2.3 Development Charge

In implementing the development charge, there are several factors that the interested party will be charged for. The factors are the change of land use, change in density, increment of plot ratio, and change of floor area based on the Town and Country Planning Act 1976 (Act 172). Based on Act 172 under Section 34 subsection 1, the applicant may apply for permission to pay instalment payments as deemed by the local planning authority, with interest rates. Even though the development charge shall be paid once, the instalment payment is not a special rate imposed by the Federation of Banks Malaysia-Singapore on a secured loan on immovable property, instead it is the interest rate set by the local planning authority. In the State of Perak, the payment of development charge can be a lump sum or by instalment as stated in Government of Perak State Gazette. The instalment payment can be applied if the amount of the development charge is above RM50,000. The applicant need to compile the requirement needed by the local authority before submitting the application for instalment payment. Meanwhile, for the State of Kedah, the applicant may also apply for the instalment payment. It seems the same goes for the State of Kedah, but there is a difference in terms of interest on late payment in which Perak will impose 8% of interest on late payment and Kedah does not impose such interest on late payment to the applicant.

3.0 METHODOLOGY

In the research methodology, there are several types of social research methodology. According to Rajasekar et al. (2006) the method of solving research problems can be considered scientific applications which are systematic, formal and intensive processes in carrying out scientific analysis methods. Research methodology is very important for every researcher to fulfil their research objectives. In the methodology process, it is divided into five stages that are preliminary review, problem statement, data collection, data analysis, and conclusion and recommendation. The method used in this research is by literature review.

3.1 Theoretical study

The first stage is finding the topic for the research. The researcher needs to make some preliminary review on any literature review about this research topic.

3.2 *Empirical study*

The researcher need to identify the issues arising from the development charge. Next, the researcher need to conduct in-depth interviews using semi-structured interviews as instruments. The sampling used is purposive sampling that involves two local authorities which are Manjung Municipal Council, Perak and Sungai Petani Municipal Council, Kedah

3.3 *Analysis and Evaluation Data*

At this stage, all data and information collected from primary data and secondary data will be analysed through qualitative method by using Atlas.ti software.

4.0 SCOPE OF RESEARCH

To understand the implementation and identifying the issues in implementing development charge at the local authority, there are two local authorities that have been selected as the areas of research.

4.1 *Sampling*

The sampling is by purposive sampling. The table below shows the number of respondents involved according to their local authority.

Table 1: Respondents' Composition

State	Local Authority	Respondent
Perak	Manjung Municipal Council	3
Kedah	Sungai Petani Municipal Council	2

5.0 ANALYSIS AND FINDINGS

The data will be analysed using content analysis method through interview sessions. There were several issues and challenges in implementing development charge.

Table 2: Issues, Challenges and Recommendation

Issues	Challenges	Recommended solution
Imposition of rate	Lack of knowledge and understanding in development charge by the developer and applicant	Standardized the imposition of rate between local authority
Interest rate or penalty payment on instalment	Administration and management process	Interest rate need to be imposed by all local authority for late payment of development charges.
There is no reduction and exemption of the payment of development charges		Review the type of applicant that for development charge.

Table 3: Challenges and Recommendation

Challenges	Recommended solution
Lack of knowledge and understanding in development charge by the developer and applicant	Make some dialog or seminar on development charge
Administration and management process	Establish the committee that handling the development charge.

6.0 CONCLUSION

The development charge is a revenue to the local authority. The main purpose of the development charge is to provide and improve infrastructures, public facilities, and amenities. This will lead to a better development area at local authority administration area. Through the research study, it proves that the problems occur because of the issues in development charge. The developers or applicants facing the payment problems actually have low understanding of development charge. The issues arising in implementing the development charge can be solved slowly. The local authorities need to play their roles in overcoming these problems by the recommended solution stated in this research. Other than that, the local authorities that have implemented the payment of development charge can set DBKL as the benchmark in managing development charge process. In order to have an effective work procedure, DBKL is suitable to be a benchmark because they have handled many cases relating to development charge. Moreover, DBKL was also the first local government that implemented the development charge in Malaysia. Manjung Municipal Council, Perak and Sungai Petani Municipal Council, Kedah require immediate remedial actions in order to ensure the objectives of implementing these charges to be successfully achieved and can provide better facilities and amenities, hence creating comfortable ambience to the public within their jurisdiction areas.

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