



Re:

The City of Cape Town's July 2006
General Valuation

An audit of & comments on
the City of Cape Town's valuation process
in terms of
the Municipal Property Rates Act 6 of 2004

Prepared by the Greater Cape Town Civic Alliance (GCTCA)

For the attention of the Executive Mayor Helen Zille

Prepared by
The Management Committee of The GCTCA

January 2008

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EXECUTIVE SUMMARY

The Greater Cape Town Civic Alliance (GCTCA) is an organization comprising over one hundred Ratepayers' & Civic Associations (see Annexure "D" for list). It and its members are deeply concerned by the processes, policies, methodology and interpretations used by the City of Cape Town in its July 2006 General Property Valuation.

The valuations do not reflect the levels of professionalism, fairness and openness we expect from this administration. Many residential properties have been significantly overvalued and were objected to. Conversely, many residential and commercial properties were significantly undervalued but, understandably, not objected to.

Numerous flaws and inaccuracies have resulted in:

- loss of income to the City;
- inequitable and unfair recuperation of some of that income from individuals at all socio-economic levels;
- an inaccurate rates-base for both this and future general revaluations.

The GCTCA appreciates why a modeling system was used. It does not wish to see the 2006 Valuation nullified.

The purpose of this initiative is to establish a positive and open working relationship with the City of Cape Town to seek solutions together to some immediate problems and to improve the valuation process, at present and in the future. As a basis for discussion, a submission is attached containing the following:

Content:

A Ratepayers' audit of the Valuation Process in terms of the Municipal Property Rates Act 6 of 2004

1. Introduction
2. Valuation procedures and policies resulting in inaccuracies and concerns:
 - .1 Valuations published without advance notice and minimal objection deadline;
 - .2 Objection deadline extended;
 - .3 Inadequate number & content of information centres
 - .4 Incorrect interpretation of "market value";
 - .5 Fairness in valuation not applied;
 - .6 Large discrepancies between sales prices and City valuation;
 - .7 Excessive variations between actual sales prices of all properties sold in Cape Town in July 2006 & the City's valuations for the same properties;
 - .8 The Rate-in-the Rand was published only at the end of the extended deadline for objections;

- .9 The 70.000 Sectional Title overvaluations & the separate direct rates account billing of unit owners;
- .10 Undervaluations of commercial properties;
- .11 Fallacious percentage of objections claimed by the City;
- .12 Calculation in respect of above statement;
- .13 Transfer duties calculated on higher municipal valuations and not on actual sales prices, yet on sales prices if municipal valuations are lower;
- .14 What is the proportion of the total rates bill paid by the 34% section of the community whose rates rose by more than 15%;
- .15 The Executive Mayor's questionable statement that the overall average rates increase was not exceeding 15%;
- .16 Semi-rural areas being rated as commercial areas;
- .17 Retirement villages/complexes being rated as commercial areas;
- .18 Rates policy prematurely passed by City;
- .19 The City, not the Provincial Administration, advertised for and received the Valuation Appeal Board applications;
- .20 Late appointment of the Valuation Appeal Board;
- .21 Inadequate rebates;
- .22 The defect in the "market value" x single Rate/Rand rating system & the introduction of "capping" on the annual increase of the Rand/Rate;
- .23 The residential rebate from R50.000 to R80.000 is actually an increase in the rates bill for properties over R88.000;
- .24 Enhancement levies;
- .25 Property acquisition by foreigners;
- .26 The 2006 Cape Town Valuation has not been equitable to all ratepayers;

3. The IPTI Audit
4. The requested valuation workshop between the GCTCA and the City's Valuation Department
5. Supplementary valuations
6. The way ahead

Addendum "A"

- The GCTCA's analysis of the IPTI Report.

Addendum "B"

- Minutes of South Peninsula Ratepayers' Associations' meeting with Cllr. Neilson and his reply thereto with the GCTCA's comments thereon.

Addendum "C"

- Graphic illustration of the ratio of actual sales prices to the City's revaluations for all properties in the Unicity during July 2006.

Addendum "D"

- Background and Mission Statement of the GCTCA with a current list of member associations.

The above documents not only identify problem areas but also suggest constructive solutions and/or improvements.

The GCTCA urges the Executive Mayor and the City officials to work with its representatives in a spirit of co-operation to explore, execute and achieve every aim of this initiative in the common interests of the City and all Ratepayers.

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1. INTRODUCTION

The Greater Cape Town Civic Alliance is a network of civic associations representing diverse communities all over Cape Town. Its overall purpose is to strengthen the efforts of those member associations in order to improve the lives of people in their different areas. It distributes useful information and shares available knowledge, experience and expertise. Where issues arise that are too big for the individual associations, it is able to join forces for the benefit of Ratepayers.

There has been concern amongst certain Ratepayers at various economic levels in Cape Town regarding the systems or procedures used and the results of the 2nd July 2006 General Valuation executed by the City of Cape Town (henceforth referred here to as the City).

This report must be construed as a ratepayers' audit of the City's 2006 General Valuation process and its implementation in terms of the Rates Act (No. 6 of 2004) compiled in its members' and the public's interest and to contribute to the Municipal and Governmental Departments' endeavour to achieve completely equitable valuations for all ratepayers in the future.

The City has pioneered in its last two General Valuations the use of the "Sigma" CAMA system which is not being used by other South African cities and it is hereby respectfully submitted that the results have fallen far short of acceptable standards of:

- professionalism and accuracy;
- equity and fairness;
- openness and transparency.

In spite of all the systems and checks used, the valuation results in widely differing areas all over the city include far too many errors, an unacceptable number of over-valuations and a large number of undervaluations.

In particular

In particular, the GCTCA is advised that the requirements of the "Sigma" CAMA system do not conform to the Rates Act definition of "Market Value". The City's use of the "Sigma" requirement to assess "typical expected market values" as opposed to the Rates Act Section 46 requirement that the "*market value of a property is the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer*" brings the legality and validity of the whole valuation into question. (See para 2.4 below and following addendum).

The GCTCA expects that Executive Mayor Helen Zille will now involve herself personally in this urgent matter which is of great concern to members of the GCTCA and individual

ratepayers and urges her to instruct her colleagues and officials to respond hereto in the spirit in which it is submitted.

At issue here is not confrontation but co-operation between the City and the GCTCA in such a collaborative manner that short-term rectifications can be made and that ratepayers can be assured that the next General Valuation is executed far more accurately and fairly to all ratepayers than has been the case in 2006.

The GCTCA offers its full co-operation in a serious joint effort to right the most immediate and urgent wrongs outlined herein.

To this end, the GCTCA has not engaged to date with the media or legal representatives so that the City can accept that this is a constructive and real attempt by the GCTCA to help rectify what is perceived by it to be a sub-standard valuation process by the City.

The GCTCA urgently requests responses from the City to the points raised hereafter.

The GCTCA would also urge that future public responses from the Council not be a further rearguard defence of past actions but rather a start to looking ahead in a positive and constructive way in a manner which will benefit all its ratepayers.

Notes:

- In the following text, paragraphs in Roman type are the measures the GCTCA believes the City must improve on and/or implement as applicable.
- The paragraphs in *italics* are comments on and the GCTCA's suggested solutions to the problems raised.

Mindful of both the financial impact and of the number of adversely affected ratepayers, the GCTCA hereby seeks from the City written answers to all of the points raised in this document and its addenda as a matter of urgency. An electronic version of this document is available if required.

2. VALUATION PROCEDURES AND POLICIES CAUSING INACCURACIES AND CONCERNS

2.1 Valuations published without notice and minimal deadline date

The City's Valuation Department published its valuation roll, as at 2 July 2006, on the 24th February 2007 without any noticeable prior warning and with an objection deadline date of 24th March 2007, the minimum period called for in the Rates Act.

GCTCA: The City should publish and broadcast notices of the pending valuation at least three months before the publishing date of the new valuations with full details of all the issues and implications thereof in order that ratepayers can be given time to properly prepare themselves for their assessment and possible objections to their valuation.

It should be noted in particular that, according to the Sunday Independent dated 4th November 2007, it was stated that the Johannesburg draft roll for valuation was published for inspection and comment in November 2007.

The formal objection period will be February to April 2008. The roll is only due to be finalized in April 2008. The Johannesburg Council has obviously given itself and objectors much more time for the objection process. This process must be emulated by the City in the next general valuation.

2.2 Objection deadline extended

On 3 April 2007, at a meeting with the City, a collection of Ratepayer/Civic Associations were able to get the objection deadline extended to the 30th April 2007.

GCTCA: The objection deadline period should not be less than two calendar months. The 30 calendar days originally required was far too short and much of this time was taken up by ratepayers trying to find out what the whole subject was about and how to react. Johannesburg has given their ratepayers from November 2007 to April 2008 to react to their original new valuation roll.

2.3 Inadequate number and content of information centres (which were closed during the extended objection deadline period).

19 Council–manned information centres were established to assist the whole Unicity’s 750 000 properties with their potential objections. These were insufficient and provided inadequate information only. No information was given of nearby comparable sold properties in the interests of a misconstrued “confidentiality” which did not seem to be a problem in the 2001 valuation. These information centres were closed during the extended objection deadline period which lessened the benefit of the extended time granted. The extended objection deadline dates were only (reluctantly) announced at the very last moment.

GCTCA: There should be at least one information centre for every two wards – lack of resources and staffing (which should be outsourced if necessary) is no excuse. Information centres must NOT be closed should the objection deadline date be extended as the absence thereof reduces the ability of objectors to compile technically correct objections.

As was the case in the previous valuation, full details of properties must be supplied at the information centres for comparison purposes by property owners, otherwise potential objectors are limited in their ability to assess or prove similarity of other properties with their valuation. Confidentiality is not considered to be a valid reason for the absence of this vital information as it is in the public domain.

2.4 Incorrect interpretation of “market value”

Only after the objections had been submitted, did the City announce at various Ratepayers’ general meetings that the City’s Valuers had applied a further large number of other criteria (29) in accordance with the American–sourced “Sigma” CAMA System on which they then incorrectly based their final valuations as “expected market values”.

This was contrary to the definition of “Market Value “ in Section 46 of the 2004 Rates Act (“*the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer*”).

These criteria and the details of the nearby sold properties were never revealed to objecting ratepayers, so comparisons were impossible and objectors were deprived of any knowledge of the City’s valuation methodology or information sources.

GCTCA: The requirements of the definition in Section 46 of the 2004 Rates Act must be adhered to in respect of the market value of properties which had actually been sold – i.e., the valuation of a property sold on 2nd July 2006 should be the same as the selling price thereof unless special circumstances in respect of the sale were prevailing at the time.

The “Sigma” System’s 29 comparative criteria can only be used for the interpolation of unsold properties in comparison with the unchanged sales prices of the sold properties.

The sales date value must be adjusted on a time basis to 2nd July 2006 (according to the IPTI Report in Section 2 hereof, this was not done and should have been for each sale).

Clause 45 (1) of the Rates Act stipulates that “Property must be valued in accordance with generally recognised valuation practices, methods and standards, and provisions of the Act.”

Clause 45 (3) stipulates that "If the market-related data of any category of rateable property is not sufficient for the proper application of subsections (1) and (2), such property may be valued in accordance with any mass valuation system or technique approved by the municipality concerned, after having considered any recommendations of its municipal valuer and as may be appropriate in the circumstances"

This infers that, contrary to what was apparently done by the City Council, the valuer can only elect to employ the "Sigma" CAMA system after he has rejected the methods defined in (1) above. The fact that he seemingly elected to employ the expensive and inaccurate "Sigma" CAMA system from the beginning, in the GCTCA's opinion, renders this valuation invalid.

All the foregoing points raise the question, therefore, as to whether any of the valuations in this General Valuation are legal or valid and what must now be done to correct this illegality.

2.5 Fairness in the valuation not applied.

Councillor Neilson has stated in a letter dated 13 June 2007 that:

"Fairness of the valuation can only be determined by deciding whether the valuation is market related at the valuation date or not". This is exactly the GCTCA's opinion.

It is contended that the "market valuations" arrived at by the City are not so, as detailed above.

GCTCA: But more than this, there are many instances where properties have not been sold at or near the valuation date and market valuation projections have to be made. The City does not seem to understand that it must specify the margin of error which it will accept from the Valuer, not the error which the Valuer recommends is acceptable in the circumstances as was the case in this valuation.

It must be emphasized that excessive undervaluations do cause hardship to those ratepayers whose properties have been overvalued, and unless the City corrects these undervaluations, overvalued ratepayers will continue to suffer.

2.6 Large discrepancies between sales prices and City valuations

Large discrepancies between sales prices and City valuations (too high and too low) are being reported from all around the city at all economic levels. This means that the method by means of which the original valuations were done was and remains highly suspect. Some ratepayers' consolidated rates bill have been increased by well over 250% - and many in respect of undervalued properties not nearly enough. This situation is not limited to any one particular area and is occurring in both residential and commercial areas.

The "Sigma" CAMA-assisted mass appraisal system being used, in the words of Dick Ward (who sold the system to the City in 2000 at a huge cost of many millions of Rands of ratepayers' money, and project-managed the 2000 valuation for the City), is only suitable for *flat, consistently/uniformly designed residential areas and specifically not in mountainous or sloping areas* (as in the Atlantic suburbs, Newlands, Constantia, Bo-Kaap and the like where the topography and the houses vary drastically from one erf to the next).

As well as the possibility that the "Sigma" CAMA System is fundamentally defective, the obvious reasons for these discrepancies are that there were not sufficient market-related sales for the Valuer to procure a "proper", accurate roll. The City must know that, in the circumstances, it may choose another system entirely in consultation with the Valuer as per Sec 45. of the 2004 Rates Act (see later).

GCTCA: The GCTCA recommends that, after two flawed rates revaluations in terms of the "Sigma" CAMA system as pioneered by City, the City now abandons this system and urgently, in conjunction with other large cities in South Africa (all of which have chosen not to adopt it), creates a better South African-originated rating system which will produce more equitable valuations.

2.7 Excessive variations between actual sales prices of all properties sold in Cape Town in July 2006 & the City's valuations for the same properties.

In an analysis by the GCTCA of over 2000 final City valuations for all Deeds Office records of actual sales of properties in the entire Unicity in the valuation month of July 2006, the City's valuations varied from $\pm 70\%$ below actual Deeds Office recorded sales prices to $\pm 325\%$ over actual Deeds Office recorded sales prices for the SAME properties in the SAME month.

This variation up and down should not have exceeded $\pm 5\%$ due to a time difference in the month in question.

In the above analysis, 12,4% of the valuations were within 5% of their selling price, 29,1% were up to $\pm 325\%$ above their selling price and 58% were up to $\pm 70\%$ below the selling price.

Alternatively, 24,1 % of the valuations were within 10% of their selling price, 24,5% were up to 325% above their selling price and 51% were up to 70% below their selling price.

Alternatively, also, 36,2% of the valuations were within 15% of their selling price 21,4% were up to 325% above their selling price and 42% were up to 70% below their selling price.

These analyses reveal a seriously flawed valuation system, especially as these valuations were used for comparison purposes by the City when calculating the valuations of nearby unsold properties which must, therefore, have been even more incorrect.

Apart from being unacceptably unfair, with some ratepayers enjoying the same benefits for a much lesser cost, these results also contradict the generous margins of error which the IAAO standards recommend.

Consequently, the above analysis confirms that the City did not achieve its stated claim that it had conformed to the IAAO-required COD criteria.

See para 2.4 above and annexure C.

2.8 The Rate-in-the-Rand was published only at the end of the extended deadline for objections.

Because the Rate-in-the-Rand and services costs (water, sewage and garbage disposal) were only announced well into the objection deadline period, objectors were unable to accurately assess whether they should object or not and this prejudiced their ability to submit technically adequate objections.

GCTCA: The timing of the whole interrelated City valuation / budgeting process in conjunction with the Rates Act should be reassessed and revised to enable the City to do a proper valuation / budgeting exercise, especially in revaluation years. The valuation process should start earlier, the objection process should be extended and the date for new rates billings should be extended to about September in all valuation years in order that the City and the objectors can be given enough time to do their required activities properly and well enough to achieve an acceptable valuation.

The one year Rates Act deadline period should be extended - there is just too much work for a large municipality to do in one year.

2.9 The 70 000 Sectional Title overvaluations and the separate direct rates account billing of unit owners.

The City withdrew and reissued $\pm 70\ 000$ incorrect sectional title valuations as a result of its $\pm 50\%$ errors in respect thereof. There has been no explanation for this major error and it reflects badly on the City Valuation Department and highlights its lack of back-up checking of its own work.

The new method of billing owners separately and directly for their rates accounts has caused confusion (as at mid-October, some rates accounts had not yet reached the unit holders). The City is going to experience huge logistical problems in tracking down absentee unit holders who may be temporarily or permanently not in residence, either in this country or overseas, with resultant shortfalls in rates collections.

GCTCA: The City should consider applying for an amendment to the 2004 Rates Act to allow Property Managing Agents the opportunity to act on behalf of the owners should the Body Corporate so wish to do so in accordance with the previous collection system.

2.10 Undervaluations of commercial properties

The GCTCA has heard of large under-valuations of some commercial properties which need to be verified with the City as these under-valuations will have affected the rating levels of the residential market.

GCTCA: The IPTI report condemns the bad commercial valuations produced by the City in this valuation. These must be corrected within the first year after the valuation date in the next supplementary valuation, together with the unacceptably high amount of residential undervaluation which are causing concerns to ratepayers who have been overvalued. This new source of rates finance to the City will fund the additional rebates, capping of rates, etc. being suggested in this report.

The GCTCA contends that there is no reason why the commercial and industrial sector should have been valued so low, compared with the residential sector. It must be remembered that the commercial / industrial sector recovers its rates overheads as tax-deductible business expenses whereas residential rates are paid out-of-pocket by residents (owners or tenants) after income tax and non-recoverable VAT.

The GCTCA hereby requests that the share of the total rates income to the City sourced from the commercial and industrial sector be increased sufficiently to provide rates relief to the residential sector. This is especially in the light of the fact that rates costs are passed on by landlords to their tenants and are not paid for directly by the former anyhow.

2.11 Fallacious percentage of objections claimed by the City

The City has stated that, seeing that there were less than 5% objections, it considers that this was a successful valuation process. The GCTCA submits that this contention is suspect (see next section).

The Executive Mayor has stated that “*international experience indicates that objections could be up to 10% of the total properties*”, but David Solomon a local

property tax expert confirms that the quality of a valuation roll cannot be judged by the number of objections, but only by using accepted statistical methods which have been refined, standardised and accredited by international associations of valuers and assessing officers such as the IAAO. After all, who will object to under-valuations or increases not exceeding 15%?

2.12 Calculations in respect of above statement

GCTCA: The City has announced that, of the ± 750 000 properties which were valued, 16% received reduced accounts (by how much was not stated) and 50% had accounts increased by not exceeding 15%. Obviously this 66% of the total amount of ratepayers would not object to their valuations. The City has announced that 27% of all accounts had increased between 15% and 30% , 5% had increased from 30% to 40% and 2% had increased by more than 40% (by how much was not stated).

Some Valuations have increased by ± 325% and some ratepayers are paying over 250% higher rates bills.

Councillor Neilson continues to point out that ratepayers are confused in this argument because the new total rates bills now include an adjusted allocation of the services , water, electricity etc. The GCTCA respectfully points out that the total cost of these services, etc., represent a relatively minor proportion of the total bill and that the rates proportion thereof is the overwhelming portion of the costs which have dramatically increased some total bills to ratepayers.

a. ± 750 000 properties, minus the above 66% with less than 15% increases (ie the non-objectors) = ± 255 000 properties.

b. 35 000 objections represent ± 14% of 255 000 properties. This creates a whole different assessment perspective of the valuation process, which is thus contended by the GCTCA as unacceptable.

In addition, this 14% excludes those Ratepayers who were either too poor to buy professional help, too ignorant, too apathetic, too far from information centres, were not computer-literate or did not even hear about the valuation process (because they probably do not read newspapers), or even too sick or elderly.

So the above claim of not exceeding a 5% objection percentage is inaccurate and needs to be examined and reviewed. The GCTCA has requested the City's justification of this statement but has not received a response.

The City seems to be applying first world standards to objectors' largely third world capabilities.

The City seems to be relying completely on the objections process as the recourse which ratepayers have to rectify its mistakes should they be unhappy with its valuations as set out in the Rates Act. There seems to have been an over-reliance on this process by the City which should not have made such drastically incorrect mistakes, above and below the true market value in the first instance. See Annexure "C" of this Audit.

Examples:

A typical example is a property in Camps Bay which was previously valued at R1 million, then revalued at R6,5 millions for 2006 and eventually revalued by the City down to R3,5 millions Notwithstanding that the City avers that valuations is not an exact science, this example typically illustrates the broad inaccuracy which the City has achieved in certain valuations.

Another example quoted to the GCTCA was where a ratepayer bought a residential property for R5 millions in June 2006. It had been previously valued by the City at R1,5 million, which amount was increased to R 6,2 millions in the July 2006 revaluation. He submitted an objection to reduce the new valuation to his purchase price of R5 millions. You can imagine his concern when the City adjusted the revaluation to R 6,7 millions !

Because the Valuation Appeals Board is not yet in operation, he is now paying rates on the higher second time revised new valuation of R6,7 millions. The confusion resulting here from an obvious double mistake is symptomatic.

See also the graph in Annexure "C" of this document.

While objections are a part of the valuations process as defined in the Act, it should not be incumbent on ratepayers to get the valuations right, but rather on the City through its employing better rating systems and policies and executing its work more accurately in the first instance. The overall accuracy of the valuation must remain the City's, and not the objectors' responsibility.

2.13 Transfer duties are being calculated on higher municipal valuations and not actual sales prices but on sales prices if municipal valuations are lower.

GCTCA: A current, unfortunate and unacceptable result of the recent incorrect overvaluation of certain properties by the City is that the South African Revenue Services (SARS) is basing the transfer duty of properties sold after the valuation date on the Council's valuation at the time of transfer and not on the subsequently lowered valuation after the objection process has been finalised.

Although this has always been the case, it is only now that certain properties have been valued so much higher than actual sales price that this situation has arisen to any great degree.

Therefore, taking the first example in the last clause of a house sold between the valuation date and the post-objection revised valuation of R3.500.000 that is being requested, the buyer would be paying an ADDITIONAL transfer duty of 8% of the difference between R3.500.000 and R 6.500.000, ie. R240.000 more than the original R280.000 - almost DOUBLE!

This situation reflects badly on the substandard rates valuation system being used which has produced this unsatisfactory end result. Moreover, the current unduly long objection adjudication process prevents this problem being solved before transfer is finalised.

As this SARS requirement is of long standing and had little to no effect when the municipal valuations were the same as or lesser than the sales price, the only way to avoid this problem is for the City to produce the correct municipal valuation in the first place. This is not happening at present.

Conversely, an unrealistically low valuation is apparently ignored by the Receiver, so, either way, the buyer suffers !

As SARS rulings are not within the City's realm, the City needs to ensure that its valuations are correct to avoid its ratepayers being penalised by national agencies in this manner. The GCTCA wishes to know meanwhile if the City has made arrangements with SARS for the refund to property buyers of transfer fees collected in excess of revised municipal valuations.

2.14 What is the proportion of the total rates bill paid by the 34% section of the population whose rates rose by more than 15%

The GCTCA hereby requests the City to inform it as to what the 34% of ratepayers who pay rate increases of more than 15% now pay as a percentage of the total rates bill in the budget.

This ± 1/3 portion of all ratepayers, regardless of their economic status, have had their rates increased excessively after two successive general valuations in 2001 and

2006. After a few more general valuations, they will be paying an unduly large portion of the total rates bill with dire consequences all around.

This proves that the current "market value" rating system with its one rate in the Rand for all valuations is highly faulty. This is because it rewards one section of the population with reduced rates bills while heavily penalising the above 34% with vastly increased rates bills. This is not acceptable in a rating system which, in terms of the Act and Constitution must treat all ratepayers "equitably".

Until capping of the annual rates increase is introduced, the above scenario will continue to be of the utmost detriment to this ±34% sector of ratepayers.

See clause 2.22

2.15 The Executive Mayor's statement that the overall Total Municipal Account (TMA) increase was only 15% on average

The above statistics do not seem to support Executive Mayor Zille's statements during her budget speech, and continuously thereafter, that ratepayers' TMA has increased, as a result of this revaluation, by only 15% on average. The experience of too many ratepayers, faced with increases from 50% to 200% and above, does not support this statement either.

Despite repeated requests from the GCTCA, the City has not been able to justify this statement which, accordingly, seems to be misleading. It was still being quoted by the Executive Mayor as recently as in November 2007 in an influential publication, The Property Magazine.

The City is hereby again requested to provide proof of the accuracy of this statement, a request made repeatedly by the GCTA, without success to date.

2.16 Semi-rural areas being rated as commercial areas

Without notice, certain residential properties in semi-rural areas (eg. Noordhoek) are being valued at the higher commercial rate in the Rand without rebates – a mistake subsequently admitted by the Council (a ± 80% error!).

GCTCA: This must be corrected as soon as possible to avoid unduly penalising the affected ratepayers.

2.17 Retirement villages/complexes being rated as commercial areas

Persons in some retirement villages are now being billed at commercial rates, apparently on the grounds that, as some are profit-making businesses, all should be treated as such regardless, whilst others, which happen to be developed on church land, are granted a 100% rebate. This anomaly is causing great confusion and hardship. We suspect that this is yet another mistake by the Council.

GCTCA: This must be corrected as soon as possible to avoid unduly penalising the affected ratepaying pensioners.

2.18 Rates policy prematurely passed by City

The rates policy and the by-law legalising it were passed by the Council before the deadline dates for the public response to the draft rates policy had been received.

A local ratepayer, Mr Des White, challenged the City's premature adoption of the Rates Policy before the deadline for public responses to be received by the City. He alleged that this procedure was not in conformance with the 2004 Rates Act and the GCTCA understands Mr White in his legal challenge.

Notwithstanding the fact that the High Court did not support Mr. White's submission, the GCTCA contends that this omission by the City must not be repeated in future valuations and that proper time be given the public at large to submit its comments, failing which the public participation process is null and void.

The GCTCA hereby also requests that it be given the opportunity to be afforded an active role in the reaction to and finalisation of the Rates Policy each year on behalf of Ratepayers whom it represents, the vast majority of whom need to have its technical guidance in such matters.

2.19 The City, not the Provincial Administration, advertised for and received the Valuation Appeal Board applications.

The City advertised for applicants for the new Valuation Appeal Board although Section 56 of the Municipal Property Rates Act 6 of 2004 stipulates that this can only be legally done by the MEC for Local Government in the Provincial Administration to ensure the Board's complete autonomy from the Council.

GCTCA: In terms of Section 56 of above Act, it was illegal for the City's Valuations Director to have financed, advertised and received the applications for the Valuation Appeals Board. There must be absolutely no contact or interference between the City and the MEC in this respect and there can be no means for the City to influence the appointment or workings of the Valuations Appeal Board.

Although the Provincial Government instructed the City to do the above this time around, this must not be permitted to happen again. It would appear that the City can finance the Board only once it is operative.

2.20 Late appointment of the Valuations Appeal Board

GCTCA: The Valuation Appeal Board should have been appointed by not later than 30th April 2007 in order for full objection process to begin without any undue delay. The Rates Act should be amended to define the date by which a Valuation Appeal Board should be appointed and begin work. This date should not be later than the deadline date for the submissions of objections against valuations.

At the time of writing (January 2008), no announcement of the new Board members has been made. The question as to whether the Council can be legally issuing new rates bills logically follows.

In the meantime, ratepayers who cannot afford their higher rates bill are having to pay rates based on the incorrectly high valuations of the City and it could be many months before the hardship caused by this is alleviated. The City clearly benefits from this delay and whether the City is seeking with all due diligence to have this delay ended is a legitimate question.

2.21 Inadequate rebates

The City's rebate concessions are considered by the GCTCA to be very inadequate in that they do not satisfactorily cater, for example, for the fixed income pensioner who is asset-rich but income poor. The City's only reaction to this situation, minuted by it after a meeting held with ratepayers on 3rd April 2007, is that such people must sell their homes and leave their suburbs, some of which they have lived in for forty years or more.

The Rates Act of 2004 allows for a considerable amount of lateral thinking in respect of adequate rebates which the Council steadfastly refuses to properly consider; it will not look at rebates for the elderly larger than the allowance currently allowed to people over 60 years old who have an income of less than R5.000 from any source.

The Council continuously concentrates on this enhanced rebate, but the GCTCA condemns the City's reluctance to extend this concession to a wider percentage of the ratepaying population.

GCTCA: The City must carefully look at adjusting rebates equitably and dramatically, over a far wider range and much more effectively than it is doing at present. Its current increases in the rebates, while welcome, are far too inadequate and simply do not address the hardships highlighted above (see next clause and 2.23).

The City's minuted attitude of "they must sell and leave" is completely unacceptable; this attitude of the City and the subsequent ratepayers' need to have to do so must be eliminated.

This statement has caused huge resentment amongst ratepayers. In future, larger rebates must solve this problem specifically to assist fixed income pensioners who are not being assisted by the present allowances.

These new rebates will be adequately paid for from the proper valuations of the many properties which were valued too low.

2.22 The defect in the "market value" x single Rate/Rand rating System and the introduction of "capping" on the annual increase of the Rate/Rand.

The rating system and rates policy currently being used by the City affects not only the wealthy areas.

Eg. a ratepayer whose property has been increased from R200.000 to R1.200.000 has exactly the same dilemma over rates affordability as a person whose property has been increased from R1.000.000 to R 6.000.000.

A glaring example is the Bo-Kaap where \pm 25% of the ratepayers objected, which demonstrates that this is a tax which drastically affects ratepayers whose properties have increased in value far in excess of the general average and at all economic levels of society.

A rating system which attempts to marry a single Rate/Rand rate to hugely fluctuating property values where the types or design of properties and the topography within the same municipal area vary as dramatically as the Cape Town Unicity area, and where some areas are much more sought after than others, is fatally flawed. It continues to simultaneously decrease and increase new rates accounts at opposite ends of the socio-economic scale which will grow further and further apart at each successive valuation. Where else is such an inequitable, skewed, and ultimately self-defeating taxation system in existence?

Amendments to the Act: The GCTCA wishes to learn from and discuss with the City its reaction to and how it intends applying the terms of the amendments to the 2004

Rates Act as promulgated in Government Gazettes Nos. 30583 and 30584 dated 19 December 2007.

GCTCA: Other sources of income must be accessed (i.e. rates from undervalued properties, capital loans, higher valuations of commercial and industrial properties, enhancement levies, ... etc.

The proper collection of rates arrears (notably from the government sector, etc.) must be pursued by the City. Similarly, the City may need to apply for differential Rates/Rand to be permitted in order that an equitable "market value" rating system can be established which everyone can afford.

The Council currently will not consider capping rates increases. The 22nd August 2007 Cape Argus has stated that Municipal property rates increases will be capped in future if a proposal by the Department of Provincial and local government is accepted by Parliament. The GCTCA supported this initiative.

ON 26 OCTOBER 2007, THE CAPE ARGUS ANNOUNCED THAT "THE NATIONAL ASSEMBLY HAD PASSED AN AMENDMENT BILL WHICH WILL SEE THE CAPPING OF MUNICIPAL RATES... AND WHICH WILL PUT AN UPPER LIMIT ON THE PERCENTAGE BY WHICH THE TOTAL REVENUE DERIVED FROM RATES ON ALL PROPERTY CATEGORIES COULD BE INCREASED".

An extract of the Amendment Bill relating to capping of annual rates increases is as follows :

*"CHAPTER 4:
AMENDMENT OF LOCAL GOVERNMENT: MUNICIPAL PROPERTY RATES ACT, 2004.*

... Section 20 of the Property Rates Act is hereby amended by the substitution for subsection (1) of the following subsection:

"(1) The Minister may, with the concurrence of the Minister of Finance and by notice in the Gazette, set an upper limit on the percentage by which—

(a) rates on [properties] property categories or a rate on a specific category of properties may be increased; or

(b) the total revenue derived from rates on all property categories or a rate on a specific category of properties may be increased."

GCTCA: THE GCTCA CONSIDERS THIS TO BE A VERY IMPORTANT DEVELOPMENT AND VINDICATES THE CONTENTS OF ITS OWN "AUDIT", WHICH WAS LARGELY WRITTEN BEFORE THIS ANNOUNCEMENT WAS MADE.

Section 45 of the 2004 Rates Act permits "a valuation system based on predetermined bands of property values" and the Council must apply its mind to this and/or geographical banding (to which Executive Mayor Zille referred to in her 2007 budget speech as needing to be considered but which was not). The GCTCA does not accept the City's reasons for not incorporating geographical banding in its valuation.

However this device may well become necessary now that capping is permitted.

Similarly, the City may need to apply for differential rates/rand to be permitted in order that an equitable "market value" rating system can be established – especially if the capping of annual increases in rates becomes an option.

Late amendment – January 2008: The GCTCA wishes to learn from and discuss with the City Council its reaction to and how it intends applying the terms of the amendments to the 2004 Rates Act as promulgated in Government Gazettes Nos. 30583 and 30584 dated 19 December 2007.

2.23 The residential rebate from R50.000 to R88.000 is actually an increase in the rates bill for properties over R88.000

The City's much publicised increase in the basic residential rebate from R 50.000 to R 88.000 is actually a DECREASE in the real rebate for persons whose properties exceed R88 000 in value – ie. it is a lesser deduction!

Calculation:

The previous deduction was $R50.000 \times R0,01242/R$ = deduct R621,00 p.a.

The new, increased deduction is $R88.000 \times R0,00459/R$ = deduct R403,92 p.a .

i.e., the rebates has DECREASED in Rand terms by R 217,08 (- 35% !)

So, being a smaller deduction, this so-called concession by the city is actually an INCREASE in rates for ratepayers whose properties exceed R88.000.

GCTCA: Arithmetically, this adjusted rebate should be that so no owners of properties valued at under $\pm R135.300$ - and NOT R88.000 - pay rates, this in order to equally benefit, not penalise, the ratepayers whose properties exceed this larger value (ie. $R135.300 \times R0.00459/R$ = deduct R621,00 per annum = effective rebate unchanged).

The “loss” of rates income resulting from this adjustment can be made up from the additional income which will accrue from the City's revaluation / corrections of the widespread undervaluations of both residential and commercial properties. This higher threshold will, in addition, be of greater benefit to disadvantaged ratepayers at that economic level.

2.24 Enhancement levies

GCTCA: In the past, when the authorities granted owners permission to depart from or amend Zoning Schemes and Title Deeds to acquire rights (effective if not in law) on their own properties which they did not previously possess, the owners had to pay an “enhancement levy” to the Municipality for these additional rights. This levy was repealed some time ago to the detriment of the Municipalities and ratepayers at large, thus depriving the Municipalities of a considerable amount of income which would have assisted the financing of annual budgets and reduced total residential rates bills accordingly.

The GCTCA contends that this enhancement levy must be reinstated immediately.

2.25 Property acquisition by foreigners

It is an undisputable fact that foreigners are taking full advantage of their favourable exchange rates when they buy property in South Africa. The very high prices they pay for properties creates a false “market value” for their properties and this must be taken into account in the City's valuations process.

GCTCA: Sales to foreigners reportedly represent less than 1% of property sales nationally yet have a disproportional impact on popular perception of property values. Consequently, their sales prices must be excluded from the revaluation calculations in order that unsold properties in the vicinity are not drawn upwards by these inflated and untypical sales prices.

2.26 The 2006 Cape Town Valuation has not been equitable to all ratepayers

In conclusion to the foregoing, the 2004 Rates Act states (Part 1.3.3.a) that a rates policy must “*treat persons liable for rates equitably*” i.e. “*fairly and impartially*”.

It is the GCTCA’s and many others’ opinion that this new rates valuation has been anything but equitable to or accurate for all concerned and respectfully submits this “audit” to assist the City to rectify its valuation methodology and become proactive in the amending of the 2004 Rates Act for the benefit of all concerned.

3. THE IPTI “AUDIT”

The GCTCA has studied the full IPTI “audit received from the City (after a six week delay and several requests). The audit was prepared by the International Property Tax Institute (IPTI), a Canadian - based world authority on municipal valuations.

Contrary to the City’s official opinion thereof, the audit is not one favourable to it and needs to be thoroughly examined by City and the GCTCA together in order that the City may understand and act positively on the shortcomings revealed therein by IPTI.

Unfortunately, it was not an audit on the last valuation in the true sense, but rather a list of items which the Council should concentrate on getting right the next time.

The GCTCA formed early on the opinion that the City took, or was forced to take, unnecessary short cuts to complete the valuation in time by 1 July 2007, hence the resultant shortcomings in the valuation process as outlined above.

The IPTI Audit confirms this opinion. The process adopted by the Johannesburg Council also seems to confirm this statement. The City should lobby for the Act to give it more adequate time to do its job properly instead of complaining about it.

In the light of the obviously too short a period for the valuation process (one year), the City should request that the valuation period defined in Section 31 of the 2004 rates Act be extended from 12 to 18 months.

GCTCA: See Annexure “A” of this document for the GCTCA analysis of the IPTI “Audit”

4. THE REQUESTED VALUATION WORKSHOP WITH THE GCTCA AND THE CITY VALUATION DEPARTMENT

The GCTCA is still awaiting the opportunity to have a workshop / demonstration session with the City’s Valuation Department as requested in April 2007 to properly ascertain how it arrived at its valuations on certain selected erven of the GCTCA’s choice.

This opportunity was accepted in principle at the above 3rd April 2007 meeting between Ratepayers’ Associations and the City, but we have been unable to have officials set up such a meeting and have yet to receive a follow up.

Cllr. Neilson has been quoted as having said at a public meeting that he is able to supply the 29 valuation criteria required by the “Sigma” CAMA system (which he has) but not the calculations of the valuations because of the agreement the City has with “Sigma”. This is in entire contrast to the Public Access to Information Act and the legality of the City’s stance here is seriously questioned.

GCTCA: The GCTCA requests again that, in the light of the spirit of this submission and the above unacceptable response, this workshop / demonstration be held without any further delay.

5. SUPPLEMENTARY VALUATIONS

In terms of the 2004 Rates Act :

77. A municipality must regularly, but at least once a year, update its valuation roll by causing-

- (a) a supplementary valuation roll to be prepared , if section 78 applies;
- or
- (b) the valuation roll to be amended, if section 79 applies.

Supplementary valuations

78. (1) A municipality must, whenever necessary, cause a supplementary valuation to be made in respect of any rateable property-

- (a) incorrectly omitted from the valuation roll;
- (b) included in a municipality after the last general valuation;
- (c) subdivided or consolidated after the last general valuation;
- (d) of which the market value has substantially increased or decreased for any reason after the last general valuation;
- (e) substantially incorrectly valued during the last general valuation;
- or
- (f) that must be revalued for any other exceptional reason.

The GCTCA recommends that the City begins immediately to correct the incorrect valuations revealed in the 2006 Valuation as required above, INCLUDING those incorrect valuations which were not the subject of ratepayers' objections, so that (1) the roll be properly corrected and that (2) the City can embark on a concerted additional rebates campaign to ease the hardships of those people who currently cannot afford the increased rates accounts.

GCTCA: The GCTCA has noticed the City's October 2007 media advertisements in respect of its first supplementary valuation and requests information being handed to it by the City at the before-mentioned workshop in respect of the methodology and results of this supplementary valuation as it would like to monitor this process and discover how the City has corrected its incorrect revaluations, up or down in both the residential and commercial sectors.

6. THE WAY AHEAD

The GCTCA is ready to meet the Executive Mayor, her fellow politicians and officials at any time and place in order to discuss the City's written answers to this document (with particular reference to para. 2.22) as soon as possible.

Due to the City's soon-to-be-begun work on its forthcoming 2008 budget, the GCTCA hereby respectfully requests that the City's written reply to this document and its addenda be made available to the GCTCA as a matter of urgency after the GCTCA's meeting with the Mayor on the 21st of February 2008.

Philip Bam

Chairperson, Greater Cape Town Civic Alliance
GCTCA

January 2008