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THE GREATER CAPE TOWN CIVIC ALLIANCE (GCTCA)
LOOKS AT THE CITY'S "RATES FIASCO"

An audit by the GCTCA of the City of Cape Town's 2009 General Valuation

1. Introduction

The Greater Cape Town Civic Alliance (GCTCA)

The GCTCA is a voluntary association of residents', ratepayers', civic and other interest groups that are active within the City of Cape Town municipal area, concerned with local government and related matters and not aligned to any political party.

Established eight years ago to react to the first draft of the proposed new City of Cape Town Integrated Zoning Scheme, the GCTCA can speak with considerable authority on valuations, having previously prepared a two-year in-depth audit on the City's 2006 GV and having submitted and discussed it extensively with City valuation officials and DA politicians right up to then Mayor Helen Zille. There was however little or no constructive response from the City officials and DA politicians (other than achieving the doubling of the objection period from one to two months – twice the Rates Act minimum requirement).

That first audit and the City's inadequate responses revealed that the 2006 GV was flawed for a host of reasons raised both within it and the subsequent International Property Tax Institute (IPTI) audit. Both audits criticized that GV at various levels.

The GCTCA's attempts to alert the City to its shortcomings in the 2006 GV generally received little to no positive response and it concerns the GCTCA that the lessons of the precious GV do not seem to have been properly learned by the City.

Having made that statement, the GCTCA acknowledges that the City has indeed attempted to improve its standards but early indications are that it still has a long way to go to achieve a reasonably fair and accurate GV for every Ratepayer within current international expectations and criteria.

In practice, The City's Valuation Department relies on the objection process to achieving a correct GV. The onus for an acceptably accurate GV should not be on Ratepayers but on those who are paid to get it right in the first place.

2. The 2009 GV

These previous audits were vindicated by the large amount of valuations in the 2009 GV some of which are lower than those in the 2006 GV for the same properties and / or the value of sales of properties sold on or about the valuation date of 1 July 2009 and some excessively and unacceptably high new valuations which were highly inconsistent with surrounding valuations.

In fact, a criticism of the 2009 GV is that, similar to the 2006 GV, there has been a preponderance of under-valuations which has placed a lot of pressure on those ratepayers who have been overvalued compared with the sales in their vicinity. Those who have been overvalued are from all areas, not just affluent areas and are, in effect, subsidising those ratepayers who have been undervalued.

3. The Cape Times Articles

It is therefore with a disappointed and irritated sense of *déjà-vu* that the GCTCA has watched the recent ill-tempered spat between the City officials (Messrs Chris Gavor and Mike Richardson), the relevant DA politician (Deputy Mayor Cllr. Ian Neilson) and The Cape Times on this ongoing subject after the recent 2009 GV in recent weeks.

The city's response to the Cape Times initial article did not reflect well on the City's representatives who played the man not the ball – to their own detriment. The subsequent Cape Times leader comment said it all - to the effect that the City may disagree with Practising Valuer Peter Meakin on various matters, but they ignore the fact that he could well be right !!

The derogatory and bordering on libellous remarks about Meakin should never have originated from people holding such important public positions. The fact that he has another system to offer certainly does not enable him to "force" the City to use it! In any event, all expenditure by the Council must pass through rigorous transparent and opening tender procedures – so their fears are groundless.

This 2009 GV again starkly demonstrates a classic situation of a problem which has many causes, all of which contribute in varying proportions to making this an almost insoluble problem which needs a complete overall of attitudes and policies by all concerned and possible modifications to the Rates Act.

The media , on occasions such as this, does not help by tending to ask intricate questions, giving unduly short deadlines for answers and then exaggerating the consequent responses with shouting headlines such as "Rates fiasco".

We have just witnessed an initial unwillingness by over-defensive City Officials and Politicians to respond to criticism, culminating in an eventual reluctant response which did not really address the criticisms to any great degree.

4. The Legal Framework

The City again hides behind the excuse that "We are forced to do what we are doing by the Rates Act" It seems to have no desire to attempt to improve the Rates Act to prevent it from continuing to produce such disappointing GVs which attitude continues to put it on a defensive back foot and which leaves a considerable amount of public discontent in its wake. In any event, the Rates Act does not restrict municipalities to only one valuation method.

There is no doubt that the basic flaw which has caused this ongoing rates valuation dissatisfaction dilemma is the preferred Rates Act valuation system which relies on a willing seller / willing buyer "Market Value" (MV) imposed on all Municipalities which must attempt to accurately assess revised GV valuations from actual sales records and a reliably accurate valuation system. For some reason, maybe a wrong valuation system, a low GV budget or simply bad valuing, the City Valuer keeps on getting it wrong (2000 and 2006 as well). The city must either correct this degree of inaccuracy, cancel this GV or employ a better valuation system.

Getting it right means that an independent audit of "verified and sold" as well as a "random sample of unsold (manual)" valuations clearly establish that the required ratios have been transparently and correctly achieved. It is the GCTCA's opinion that it is wrong for the City to claim that it is getting better with each GV because it simply does not know – because the under-valuations contort the real

objection percentage and it cannot gauge the extent of the inaccuracies hidden in the valuations of non-objectors.

The 2004 Rates Act stipulates that the market value is what a property would have sold on the date of the GV (1 July 2009) as a result of a sale between "a willing seller and a willing buyer". Herein lies the major weakness of the current municipal rates valuation process.

The City of Cape Town, for example, does not agree that a registered Deeds Office sale on the GV date necessarily represents its true municipal value at the same date. It subjectively attempts to ascertain the circumstances of the sale and makes what it considers to be appropriate modifications, and then makes further modifications after it has applied other value-affecting criteria imposed on it by its "computer aided mass appraisal" (Sigma CAMA) valuation system, thereby creating its final assessment of what the sale amount "should have been", not what it actually was. There are obvious instances where actual sales prices are unduly high or low for exceptional reasons. In such instances they should be deleted from the valuation process, not always theoretically adjusted, because they are generally in an extreme minority.

The GCTCA differs from the City in this aspect of its GV, maintaining that generally the recorded Deeds Office sales amounts should be used as they are not open to academic opinion-driven adjustments, represent the actual market forces and hence meet the requirements of the 2004 Rates Act. .

This opinion was presented by the delegates including the GCTCA from various rates-paying sectors at a recent all-day seminar held by the National Department of Co-operative Governance and Traditional Affairs (CoGTA) for its annual country wide Rates Act review programme, from which the City and the Provincial Government were again conspicuously absent.

The City seems to again be using the objection process as the means by which its GV is corrected or the yardstick with which to judge whether this has been a good GV or not. For it to claim credit for there only being about $\pm 4,5\%$ objections is a naïve and misleading statement, because those Ratepayers who have been under-valued will not object. Add those ratepayers whose valuations are correct or reasonably within the required CoD limits and add those ratepayers who are either too poor or too uneducated to be able to compile an objection of any merit or at all, and the above claimed percentage of those who are left and justified in objecting soars.

Similarly, the City's claimed so-called average $\pm 9\%$ increase across the board for all the rates valuations is equally flawed for the same reasons as above.

5. The Valuation Accuracy Issues

This GV was not a fiasco in the "total disaster" sense of the word, but was, in parts, highly inaccurate and far in excess of the internationally set of maximum acceptable average coefficients of dispersion (COD) (measurement of the difference between the new valuations and actual sales).

Every Ratepayer appreciates and understands that rates must increase with inflation (as they do in the years between GVs), but the general justifiable expectation is that GV increases must be consistently fair and equitable to all ratepayers at all economic levels without exception.

The properties which are worst hit are in those areas which are difficult to value because of their complexity, architectural diversity and the nature of the terrain where they are situated. None of these can be accurately assessed by the simple technique of punching a computer especially without a valuation executed as a result of a site visit..

It is common cause that if the valuations for the sold properties are incorrect, the valuations for the unsold properties must be equally incorrect, or even more so.

A contributory possible cause for the latest GV's inconsistencies is the fact that this time the City has

declared that it performed little to no inspections on site for data collecting and valuations at first hand purposes. In 2006 the international IPTI Audit criticised the City for performing fewer than 50% site visits. This 2009 GV can only have been more adversely affected by a bigger lack of on-site inspections.

The City Valuer, Christopher Gavor, states that "A physical inspection is not compulsory" in terms of the 2004 Rates Act and he is perfectly correct if the system he uses conforms to the accuracy of the "willing seller willing buyer" standards . But does he not understand that this is a section of the Act which surely demands modification ? It is the GCTCA's contention that at least about 66% of all sold and unsold properties should be physically inspected. To sit at a computer and academically compute theoretical valuations without a site inspection, is, with respect, a very unprofessional and inaccurate approach to such an important matter as the GV process.

The City's use of a computer assisted mass appraisal programme, bought at a huge (possibly untendered for and undisclosed) cost before the 2006 GV, undoubtedly contributes further to the inaccuracies which have appeared in this GV, notwithstanding recent modifications thereto claimed by the City. This was highlighted in person by Mr. Dick Ward, the American who sold the system to the City, who contended that the system was only efficient in cities with a flat terrain and with a consistent built environment. Steep, hilly areas such as Newlands, Clifton. Camps Bay, Llandudno, Sea Point, Bokaap, the City Bowl, the False Bay coast etc. with widely contrasting architectural styles and land slopes etc. are not, in the GCTCA's and Mr. Waerd's opinion, suitable for this computerised system.

Human errors and simply bad valuing also could have contributed to errors. One Clifton property owner apparently had his adjacent empty plot valued at a higher value than his one with his house on it – because the City thought that there was also a house there !

Notwithstanding the City's declared reasons that a GV done before the maximum time between GVs of not exceeding four years was an advantage to Ratepayers, their real reason, given to the GCTCA was that they did not want this GV in an election year with all the adverse publicity it may create.

6. Over- and Under-Valuations

A minority of the overvalued rate paying population must not have to pay for the incorrect under-valuations being given to others. The City just seems to be entirely incapable of understanding this ! Nor does it appear to be attempting to address this situation, falling back yet again on the old cliché that there is always the objection process to resort to, instead of getting the valuations right in the first place - a job we have paid Valuers to perform.

7. Valuation Monitoring

At present the City is awaiting the results of two major audits on its 2009 GV, the Valuation Director having already signed off the GV as being acceptable in January 2010. On what basis did he do that ? What will happen if these audits are adverse ? Will the ratepaying public ever hear about this ?

The first independent audit is due from the International Property Tax Institute [IPTI] audit, which, the GCTCA is told, is going to examine the GV's accuracy viz the Coefficient of Dispersion between valuations and sales of 30 000 properties. We await this complicated statistical analysis with great interest.

We must ask a question about the independence of the IPTI. Audits are undertaken by professional auditors or statisticians not Institutes who have the status of a club which looks after its members interests and not their clients. Who pays IPTI for this audit ?

The second independent checking process **must**, in terms of the Rates Act be performed by the Provincial Government, namely the monitoring of the GV in terms of Section 81 of the Rates Act as

follows :

Provincial monitoring

81. (1) The MEC for local government in a province must monitor whether municipalities in the province comply with the provisions of this Act.

(2) If a municipality fails to comply with a provision of this Act, the MEC may take any appropriate steps to ensure compliance, including proposing an intervention the provincial executive in terms of section 139 of the Constitution.

Again, this is hopefully being done in retrospect (in spite of the Provincial Government notifying the GCTCA that it was not conducting this monitoring for this GV due to it not having the resources) after the publishing of the valuation roll as signed off by the City Valuer. On what basis did he sign this GV off ?

See the letter Ref LG10/1/1/K23 addressed bto the GCTCA dated 29 January 2010 in his respect.

The question again arises as to what will happen if this process reveals an inadequate GV ?

8. The Way Forward

In the interests of the ratepaying public at large, the GCTCA now requests the following from the City Valuer :

A complete workshop analysis of selected valuations of the GCTCA's choice to compare them with their actual selling prices : ie under-valuations, "correct valuations" and overvaluations all in July 2009, before and after objections.

The publishing of the Provincial Government's monitoring process report and the complete IPTI's audit with its analysis of the CoDs of the 30 000 properties Cllr Neilson says is being prepared. This is a request in terms of the Public Information Act in the interests of all Ratepayers in the Unicity.

At what cost to Ratepayers was the Sigma CAMA system bought by the City from Mr. Dick Ward ? Was there a transparent tendering process at the time and if not, why not ?

9. What Should Now Be Done About The 2009 Gv ?

Abort this valuation until a suitable new system is found – which doesn't necessarily have to rely on Market values to work properly – if possible.

Adopt an alternative system as the Rates Act sec 45.3b permits as the Western Cape Government Minister Anton Bredell is currently suggesting.

Suggest that if a "market value" rates valuation system must be maintained, cap the % valuation increase or decrease at GVs to not exceeding the internationally demanded average maximum $\pm 12,5\%$ CoD up or down and cap the increase to the Rate / Rand for the years in between GV years to not exceeding the Cost of Living annual index. This will ensure that all ratepayers will be dealt with equally at any one time.

Only use actual Deeds Office recorded sales to establish the market values of sold properties.

Increase the GV valuation budget to do a proper job as the IAAO standards demand. Ie obtain funds to perform the data-collection / valuation site visits and alter the Rates Act to permit a longer period within which to do a proper GV – one year seems to be much too short – which period is used by the City as an excuse to perform the valuation and the audits thereon in parallel and not sequentially.

Ensure that the Rate / Rand is announced long before the deadline date for objections to enable Ratepayers to properly decide what they are going to have to pay with their new valuation – thus enabling them to properly decide whether to object or not.

10. Final Comments

A minority of the rate-paying population must not have to pay for the incorrect under-valuations being given to others. This is irrational and therefore illegal. People must not be forced to sell their homes because their rates burden is becoming unaffordable – especially pensioners who have occupied their homes for long periods. Comments by city officials and politicians at the last two GVs to the effect that if people cannot afford their homes they must sell and leave must be treated with the contempt which they deserve.

In conclusion, the GCTCA is of the opinion that, yet again, the 2009 GV produced by the City falls short of its legal commitment: a GV which is equally and simultaneously equitable to all Ratepayers throughout the population.

The City's third successive CAMA market-related GV is not providing the uniform adjustments to Ratepayers to their new valuations sufficiently to convince them that they are being fairly treated across the full spectrum of properties and income levels. The understandable non-objections by Ratepayers who have not objected because they have received reduced valuations or valuations which have hardly differed, to the detriment of the those whose values have soared, is certainly contributing to the ongoing dissatisfaction with the municipal rating system as presently being used by the City.

The GCTCA welcomes the suggestions being made by Minister Anton Bredell that a new and better rating system be found which is accepted in principle by all, imposes GV rates increases equally across the whole rate-paying population at GVs and is not having to rely on an expensive and time-consuming objection process to correct what should have been done correctly in the first place.

Cllr. Nielson ends his article to The Cape Times by echoing a similar previous media comment by Valuations Director Christopher Gavor by repeating the following statement : "Real changes to individual property rates will, of course, vary enormously depending on extent to their change in value".

With this obvious statement, he appears to be unaware that this is the absolute crux of the whole GV dilemma and he simply states it as a matter of inevitable and incurable fact about which the City can and will do absolutely nothing. Whereas what he says is correct, it is the unacceptable differentiation in the comparative valuation increases or decreases (sometimes in the same street) resulting from a flawed rating system and suspected substandard valuation work by the City in the present and/or previous GVs which is causing much antagonism and resentment in the minds of Ratepayers.

In other words, his answer is an unsuccessful attempt at deflecting public criticisms by stating the obvious as if there is nothing the city can or wants to do about it – a sad reflection on the City's attempts to produce a better GV in its attempts to "Work for you!"

Philip Bam
Chairman GCTCA

Chairman : Philip Bam # Vice-chairmen :John Gray & George Sieraha # Secretary : Graham Noble # Treasurer : Alan Jackson
The GCTCA is an alliance of over 100 associations dedicated to improving the lives of all Capetonians, in civic matters

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