TSWELOPELE
LOCAL MUNICIPALITY
A MUNICIPALITY IN PROGRESS

POLICY ON THE LEVYING OF RATES ON RATEABLE PROPERTY

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SECTION A: INTRODUCTION, DEFINITIONS AND PRINCIPLES

1. INTRODUCTION

The Local Government: Municipal Property Rates Act [2004] requires municipalities to develop and adopt rates policies consistent with the Act on the levying of rates on rateable property in the municipality.

Herewith is the rates policy of Tswelopele Local Municipality as required by the Act.

The municipality needs a reliable source of revenue to provide basic services and perform its functions. Revenue from property rates is an important source of general revenue for the municipality. This revenue is utilised to fund infrastructure and other capital expenditure benefiting the community as a whole as opposed to individual households. These include building of streets, roads, sidewalks, installation of electricity and storm water drainage facilities.

Revenue from property rates is also utilised to fund municipal administration, such as computer equipment and stationary, and costs of governance, such as council and community meetings, which facilitate community participation on issues of Integrated Development Plans [IDP's] and municipal budgets.

Municipal property rates are set, collected and utilised locally. Revenue from property rates is spent within a municipality where the citizens and voters have a voice in decisions on how the revenue should be spent as part of the Integrated Development Plans [IDP's] and budget processes.

2. DEFINITIONS

"Act" means the Local Government: Municipal Property Rates Act, 2004 [Act 6 of 2004].

"Agricultural Purposes" in relation to the use of a property, excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game.

"Business" means the activity of buying, selling or trade in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of the business of mining, agriculture, farming, or inter alia, any other business consisting of the cultivation of soil, the gathering of crops or the rearing of livestock or the propagation and harvesting of fish or other aquatic organisms.

"Establishment Costs" means the cost included in the initial property purchase price, bulk and internal service installation costs and the initial sales and marketing costs, but exclude maintenance costs, finance charges and deemed costs that do not reflect the spirit of the investment concessions.

"Farm Worker" means any person employed as manager or worker on a farm who's duty is to conduct farming operations.

"Industrial" means a branch of trade or manufacturing, production assembling or processing of finished or partially finished products from raw materials or fabricated part, on such a scale that capital and labour are significantly involved.

"Mining" means any operation or activity for the purpose of extracting any mineral on, in or under the earth, water or any residue deposit, whether by underground or open working or otherwise and includes any operation or activity incidental thereto.

"Multiple use properties" means properties that cannot be assigned to a single category due to different uses.

"Municipal properties" means those properties of which the municipality is the owner.

"Newly rateable property" means any rateable property on which property rates had not been levied by 30 June 2007, excluding a property that was incorrectly omitted from a valuation roll and for that reason was not rated before that date.

"Protected area" means an area that is or has to be listed in the register referred to in section 10 of the National Environmental Management: Protected Areas Act, 2003.

"Public Benefit Organisation" means an organisation conducting specified public benefit activities as defined in the Act and registered in terms of the Income Tax Act for tax reductions because of those activities.

"Public Service Infrastructure" means publicly controlled infrastructure of the following kinds:

[a] national, provincial or other public roads on which goods, services or labour move across a municipal boundary;

[b] water or sewer pipes, ducts or other conduits, dams and water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;

[c] power stations, power substations or power lines forming part of an electricity scheme serving the public;

[d] gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;

[e] railway lines forming part of a national railway system;

[f] communication towers, masts, exchanges or lines forming part of a communications system serving the public;

[g] runways or aprons at national or provincial airports;

[h] breakwater, sea walls, channels, basins, guay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising light houses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;

[i] any other publicly controlled infrastructure as may be prescribed; or

[j] rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs [a] to [i];

"Residential" means a suite of rooms forming a living unit that is exclusively used for human habitation purposes, or a multiple number of such units on a property, excluding a hotel, commune, boarding and lodging undertaking, hostel and place of instruction.

"State owned properties" means properties owned by the state, which are not included in the definition of public service infrastructure in the Act. These state owned properties are classified as follows:

[a] State properties that provide local services.

[b] State properties that provide regional / municipal / district wide / metro wide services.

[c] State properties that provide provincial / national services.

"Vacant land" means a land in urban area where no immovable improvements have been erected.

3. PRINCIPLES

The following principles will ensure that the municipality treats persons liable for rates equitably:

Equity

The municipality will treat ratepayers with similar properties the same.

Affordability

The ability of a person to pay rates will be taken into account by the municipality. In dealing with the poor / indigent ratepayers the municipality will provide relief measures through exemptions, reductions or rebates. In order to minimise major shocks to ratepayers the market values in the new valuation roll will be phased in over the entire period of the valuation cycle.

SECTION B: CATEGORIES OF PROPERTY

4. CRITERIA FOR CATEGORIES OF PROPERTY FOR THE PURPOSE OF LEVYING DIFFERENT RATES

The municipality has determined categories of properties based on the following criteria:

- Use of the property;

The following are the determined categories of properties by the municipality:

- Residential properties
- Business properties
- Industrial properties
- Mining properties
- Public service infrastructure
- Public Benefits Organisation
  - [i] Churches
  - [ii] Old Age Homes
  - [iii] Sport organisation
- Agricultural properties used for -
  - [i] agricultural purposes;
  - [ii] other business and commercial purposes;
  - [iii] residential purposes;
  - [iv] purposes other than those specified in subparagraph [i] to [iii];
  - [v] not used for any purpose;
- Small holdings used for -
  - [i] agricultural purposes;

- [ii] residential purposes;
- [iii] industrial purposes;
- [iv] business and commercial purposes;
- [v] purposes other than those specified in subparagraphs [i] to [iv];

- State owned properties -
  - [i] State properties that provide local services;
  - [ii] State properties that provide regional / municipal / district / metro wide services;
  - [iii] State properties that provide provincial / national services;
- Municipal properties
- Protected areas
- Multiple use properties
- Vacant land

5. CRITERIA FOR RATING MULTIPLE USE PROPERTIES

The following criteria will be used in the identification of these properties:

- By apportioning the market value of a property to the different purposes for which the property is used; and
- By applying the relevant cent amount in the rand to the corresponding apportioned market value.

SECTION C: DIFFERENTIAL RATING

6. CRITERIA FOR DIFFERENTIAL RATING ON DIFFERENT CATEGORIES OF PROPERTIES

The following will be taken into consideration for the purpose of differential rating:

- The nature of the property including its sensitivity to rating e.g agricultural properties used for agricultural purposes.
- Vacant land may be rated higher [in terms of a cent amount in a rand] as the municipality wishes to encourage owners of vacant land in urban area to develop the land and to discourage speculation in vacant land.
- Promotion of sustainable social and economic development and investments within the municipal region.
- Differential rating among the various property categories will be done by way of setting different cent amounts in the rand for each property category rather than by way of

reductions and rebates. This is much simpler for citizens to understand and in this way promotes the principle of transparency.

SECTION D: RELIEF MEASURES RELATED TO CATEGORIES OF PROPERTIES AND CATEGORIES OF OWNERS OF PROPERTIES

7.1 CATEGORIES OF PROPERTIES NOT LIABLE FOR THE PURPOSE OF LEVYING RATES

Subject to the provisions of sections 16 and 17 of the Act the following categories of properties will not be liable for the purpose of levying rates:

[a] Public Sport and Recreation Facilities;
[b] Public and Private Open Spaces.

7.2 CRITERIA FOR EXEMPTIONS, REBATES AND REDUCTIONS

The following will be taken into consideration for the purpose of granting exemptions, rebates and reductions:

- Indigent status of the owner of a property.
- Sources of income of the owner of a property.
- Market value of residential property below a determined threshold.
- Social or economic conditions of the area where the owners of property are located e.g an area declared by the National or Provincial Government to be a disaster area within the meaning of Disaster Management Act, 2002, to the extent that the owners are significantly negatively affected.

8. GRANTING OF EXEMPTIONS, REBATES AND REDUCTIONS

Granting of exemptions, rebates and deduction in terms of the promotion of sustainable social and economic development of the municipal region and subject to paragraph 13 of this policy will form part of the Service Agreement between the municipality and the prospective investor / developer.

9. EFFECT OF RATES TO THE POOR AND MUNICIPALITIES' MEASURES TO ALLEVIATE RATES BURDEN

In order to alleviate the rates burden on the poor, the following exemptions and rebates will apply:

Exemptions:

- Indigent owners;
- Owners dependent on pensions or social grant for their livelihood; and
- Owners of residential property whose market value is below R 15 000-00 as the first mandatory exclusion.

10. EFFECT OF RATES ON PUBLIC BENEFIT ORGANISATIONS

Taking into account the effects of rates on Public Benefit Organisations performing a specific public benefit activity and registered in terms of the Income Tax Act for tax reduction because of those activities, Public Benefit Organisations [PBO's] performing the following specified public benefits activities will be exempted from rating:

- Welfare and humanitarian, for example PBO's providing disaster relief;
- Health care, for example PBO's providing counselling and treatment of persons afflicted with HIV and AIDS, including the care of their families and dependents in this regard; and
- Education and development, for example PBO's providing early-childhood development services for pre-school children.

11. EFFECT OF RATES ON PUBLIC SERVICE INFRASTRUCTURE

Municipality may not levy rate on the first 30% of the market value of the public service infrastructure.

12.1 EFFECT OF RATES ON PROPERTIES USED FOR AGRICULTURAL PURPOSES

The following factors will be taken into account:

[a] The extent of municipal services provided to agricultural properties

The following rebates are proposed:

- 7,5% rebate, if there are no municipal roads next to the property.
- 7,5% rebate, if there is no municipal sewerage to the property.
- 7,5% rebate, if there is no municipal electricity to the property.
- 20% rebate, if water is not supplied by the municipality.
- 7,5% rebate, if there is no refuse removal that is provided by the municipality.

✰ *These provisions also apply to the mining sector*

[b] The contribution of agriculture to the local economy

A rebate of 5% will be granted to agricultural property that contributes substantially to job creation, and the salaries / wages of farm workers are reasonable, e.g if they meet minimum standards set by Government or if they are in line with the sector's average.

[c] The extent to which agriculture assists in meeting service delivery and development obligations of the municipality and contributes to the social and economic welfare of farm workers

The following rebates will be granted:

- 5% rebate, if the owner is providing permanent residence to the farm workers.
- 5% rebate, if such residential properties are provided with on site potable water.
- 5% rebate, if the farmer electrifies such residential properties for the farm workers.
- 5% rebate, if the farmer is availing his land / buildings to be used for a cemetery, education and recreational purposes of the farm workers' children and the nearby community in general.

To qualify for rebates in terms of clause 12.1 b and c above, applicant must submit proof and / or portfolio of evidence that he has complied with the conditions set in clause 12.1 b and c.

12.2 EFFECT OF RATE EXEMPTIONS, REBATES AND REDUCTION INCENTIVES APPLICABLE TO THE SOCIAL AND ECONOMIC DEVELOPMENT OF THE MUNICIPALITY

[a] The taxable portion of the property will be proportionally valued according to the original purchase price of the property. This reduction will remain in effect for the establishment phase of the development as defined in the Services Agreement described in paragraph 8, or on the sale of the property, whichever takes place first. Where no other dates have been contractually set, liability for the rates will commence on the date of Title Deed Registration.

[b] A rebate equal to the establishment costs incurred by the investor / developer will be granted where the original property is subdivided. A proportional rebate deduction from the revised property value will be applied.

[c] The rebate will cease once it represents less than 10% of the market value of the property.

[d] Additional rebates applicable to the discounted property value based on the following criteria:

[i] 25% rebate, economic value and dependency ratio [rated ability to pave the way to secure future investments and unlock a series of other projects].

[ii] 10% rebate, creation of employment and skills development opportunities for municipal residents;

[iii] 5% rebate, poverty alleviation and improved social welfare to the indigents. This will have to be proven.

[e] The rebate will reduce proportionally as defined in the Service Agreement over a maximum period of ten [10] years.

[f] The discounted property value, recalculated annually, will be subject to a minimum of the average valuation in respect of the specific privately owned land use category of property in the area in which the said development is located.

[g] For residential properties, as defined in the applicable town planning scheme, the discounted property value will be subject to a maximum of five times the average valuation of the said category of privately owned property in the area in which the said development is located.

13. OTHER EXEMPTIONS

13.1 On a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by an office bearer of the community who officiates at services at that place of worship in terms of section 17 [1][i] of the Act.

13.2 The exemption is applicable also on a property registered in the name of and used primarily as a place of public worship by a religious community that do not erect buildings.

13.3 Municipal properties that are not leased or rented out by the municipality.

14. REDUCTIONS

Management of shocks

A municipality will limit rates shocks to property owners due to the increase in the market value of their properties as a result of the compilation and implementation of a new valuation roll. This will be done by phasing in of the new market value as reflected in the valuation roll over a period of four years as the life cycle of the valuation roll is four years. The table below illustrates the point:

Valuation Cycle	**Value on a roll without phasing in [in Rand]**	**Rates payable assuming 1 Cent / Rand**	**Value on a roll after phasing in [in Rand], assuming 25% phasing in**	**Rates payable assuming 1 Cent / Rand**
Last year of cycle	60 000	600	60 000	600
1st Year in new cycle	70 000	700	62 500	625
2nd Year in new cycle	70 000	700	65 000	650
3rd Year in new cycle	70 000	700	67 500	675
4th Last year in cycle	70 000	700	70 000	700

Property A's market value has increased from R 60 000-00 to R 70 000-00 due to a compilation of a new general valuation roll. Rates payable by property A to the municipality will increase from R 600-00 to R 700-00 if the market value of this property is not phased-in and the cent amount in a rand is constant at one cent.

To minimise rates shocks from R 600-00 to R 700-00, the phasing in of market values over a period of four years is used in the manner illustrated in the above table and outlined below:

Year 1: The market value of R 62 500 at one cent will yield rates payable of R 625-00 instead of R 700-00 if the phasing in was not used.

Year 2: The market value of R 65 000-00 and at one cent will yield rates payable of R 650-00 instead of R 700-00 if the phasing in was not used. The same principle applies for year 3 and year 4. This means a municipality has spread the rates burden over a period of four years based on the life cycle of its valuation roll.

As the table illustrates although the phasing in is effected on the market values of properties as listed in the valuation roll, the effect works itself to the total rates liabilities of property owners as well as the property rates income in the municipal budget.

15. COST TO MUNICIPALITIES DUE TO EXEMPTION, REBATES, REDUCTIONS, EXCLUSIONS, PHASING IN AND THE BENEFIT THEREOF TO MUNICIPALITIES

The following will be to the benefit of granting relief measures to the municipality:

- Promote local economic development including attracting business investment, for example small business establishment.
- Creation of employment for municipal residents.
- Promotion of service delivery, for example by farmers.
- Poverty alleviation to the indigents.
- Social development and moral development, for example, by religious institutions, sport institutions, schools and other non-governmental organisations which promote health and other benefits to the community.
- Improved local economic growth.

SECTION E: RATES INCREASES / DECREASE

16. CRITERIA FOR INCREASING OF RATES

The following will be taken into account for the purpose of increasing / decreasing rates:

- Priorities of a municipality reflected in its Integrated Development Plan.
- The revenue needs of the municipality.
- A need for management of rates shocks.
- Affordability of rates to ratepayers.

SECTION F: LIABILITY FOR RATES

17. LIABILITY FOR RATES BY PROPERTY OWNERS

[a] Property rates payable by owners

In a case of agricultural property owned by more than one owner in undivided shares where the holding of such undivided shares was allowed before the commencement of the subdivision of the Agricultural Land Act, 1970 the Municipality has considered the following three scenarios and will treat the owner of such property for the purpose of liability for rates in the following manner:

Scenario 1

If the joint property owners are all available and are traceable, the issue of who is liable for rates will be dealt with in the context of whether they have entered into an agreement or not regarding payment of rates liabilities.

In a circumstance where joint owners of the agricultural property have an agreement amongst themselves that a specific joint owner is liable for all rates levied in respect of that agricultural property, a municipality will hold such a specific joint owners liable for all rates levied in respect of the agricultural property. Such an agreement must be in writing and signed by all affected parties, and a certified copy thereof must be submitted to the Municipality.

In a circumstance where joint owners of the agricultural property have an agreement amongst themselves that each joint owner is liable for that portion of rates on that property that represent that joint owner's undivided share in the agricultural property, a municipality will hold each joint owner liable for their portion of rate levied on the agriculture property. Such an agreement must be in writing and signed by all affected parties, and a certified copy thereof must be submitted to the Municipality.

In a circumstance where joint owners of the agricultural property have not informed the Municipality in writing as to who is liable for rates regarding agricultural property, the Municipality will apply either 24 [2][b][i] or [ii] of the Act.

Scenario 2

If the joint property owners are not traceable with the exception of one joint owner and such joint owner is occupying or using the entire property or a significant larger portion of the entire property [e.g 80%], the Municipality will hold that joint owner liable for the total rates bill for that entire property.

Scenario 3

If the joint property owners are not traceable with the exception of one joint owner and such joint owner is occupying or using a small portion of the entire property, the

Municipality will hold that joint owner liable for that portion of rates levied on the entire property that represents that joint owner’s undivided share in that property.

[b] Method and time of payment

- The Municipality will recover rates on a monthly basis.
- Annual rates must be paid in monthly instalments to the Municipality at the end of each month.
- The Municipality makes provision for the recovery of rates on a monthly basis, subject to conditions outlined in the credit control policy of the Municipality.

[c] Deferral of payment of rates liabilities

The Municipality will consider each and every application for deferral of rates, taking into account the merits and demerits of each and the financial implications thereof in so far as the cash-flow of the Municipality is concerned.

18. AMOUNT DUE FOR RATES

A rate [cent amount in rand] will be reflected in the budget.

19. ANNUAL REVIEW OF RATES POLICY

The Municipality may annually review but must review at least every four [4] years, and if necessary amend its rates policy taking into account public comments and inputs.

20. THE EFFECTIVE DATES OF THE RATES POLICY

The rates policy takes effect on the effective date of the first valuation roll prepared by the Municipality in terms of the Act and thereafter from the start of the municipal financial year.

SECTION G: LEGAL REQUIREMENTS THAT ALL MUNICIPALITIES MUST COMPLY WITH IN TERMS OF THE MUNICIPAL PROPERTY RATES ACT, 2004 [ACT 6 OF 2004] WITH REGARD TO RATES POLICY DEVELOPMENT

This addendum does not contain all the provisions of the Act that must be complied with in the development of a rates policy, but lists only a few key provisions that the Municipality considers necessary for residents / ratepayers to be aware of providing them with a full picture of rating issues that will affect them.

1. IMPERMISSIBLE RATE

The Municipality may not levy a rate on the following in terms of section 17 [1] of the Act:

- On the first R 15 000-00 of the market value of public service infrastructure.
- Any part of the seashore in terms of section 17 [1][b] of the Act.
- Any part of the territorial waters of the Republic in terms of section 17 [1][c] of the Act.
- Any island of which the state is the owner in terms of section 17 [1][d] of the Act.
- Protected areas in terms of section 17 [1][e] of the Act.
- Mineral rights in terms of section 17 [1][f] of the Act.
- Properties belonging to land reform beneficiaries in terms of section 17 [1][g] of the Act.
- On the first R 15 000-00 of the market value of residential property in terms of section 17 [1][h] of the Act.
- Religious institutions in terms of section 17 [1][i] of the Act.

2. COMPULSORY PHASING IN OF CERTAIN RATES

Rates levied on a newly rateable property must be phased in over a period of three or four years depending on the ownership and use of such a property in terms of section 21 of the Act.

3. PRESCRIBED RATIOS

The Municipality will comply with the ratios set by the Minister of Provincial and Local Government in concurrence with the Minister of Finance in terms of section 19 of the Act. These are determined by National Government and are published in the relevant Government Gazette.

4. LIMITS ON ANNUAL INCREASES ON RATES

The Municipality will comply with the notice issued by the Minister of Provincial and Local Government in concurrence with the Minister of Finance regarding the set upper limit on the percentage by which rates on properties or a rate on a specific property may be increased in terms of section 20 of the Act. The set upper limit is 10%.