

**MINUTES -
OF A MEETING OF THE ADJOURNED COUNCIL OF THE CITY OF CAPE TOWN
HELD ON FRIDAY, 1 NOVEMBER 2002 AT 10:30 IN THE COUNCIL CHAMBER, 6 TH
FLOOR, PODIUM BLOCK, CIVIC CENTRE, 12 HERTZOG BOULEVARD, CAPE TOWN.**

C 37/11/02 R50 000 VALUE DISCOUNT – SECTIONAL TITLE
PROPERTIES
SPC 24/10/02

Explanatory notes were submitted, a copy of which is attached to the minutes as Addendum F.

RESOLVED that the R50 000 value discount be extended to individual units in residential sectional title developments.



ADOPTED BY ORDINARY RESOLUTION

FOR DECISION BY COUNCIL

MULTI-PARTY WORKING GROUP 965

EXECUTIVE COMMITTEE -

15 OCTOBER 2002

COUNCIL

29 OCTOBER 2002

R50 000 VALUE DISCOUNT - SECTIONAL TITLE PROPERTIES

EXCO 61/10/02 (H05/5/3)
(Mr M Richardson)
(Cape Town Administration)
SPC 24/10/02 (400-3265)
(2002-10-07)

1. EXECUTIVE SUMMARY

- 1.1 At its meeting on 25 June 2002, the Executive Committee considered a report on the granting of the R50 000 value discount to sectional title properties. The committee resolved, *inter alia*, that a further report be submitted "giving full financial details as to how the extension of the R50 000 value discount to rental properties and to sectional title properties will be funded in the next financial year."
- 1.2 At the meeting of the Executive Committee held on 23 July 2002, the Committee considered an interim report on the matter.
- 1.3 The Multi-Party Working Group met on 2 October 2002 and, *inter alia*, considered the matter further. This report outlines the issues considered by the Group and its recommendations to the Executive Committee.

2. BUSINESS PLAN REFERENCE

Directorate : Financial Services
Department : Budgets
B.P. Reference: Budget and General Valuation Implementation.

3. COMPLIANCE WITH STRATEGIC OBJECTIVE

Not applicable

4. DELEGATED AUTHORITY

Council - not delegated

MULTI-PARTY WORKING GROUP**EXECUTIVE COMMITTEE****COUNCIL****5. ANNEXURES**

- A - Report dated 18 June 2002 considered by EXCO on 25 June 2002.
- B - Report dated 11 July 2002 considered by EXCO on 23 July 2002.

6. POLICY

Not applicable

7. LEGAL REQUIREMENTS

Section 10G of Local Government Transaction Act 1993 (Saved in Structures Act)

8. BACKGROUND/INTRODUCTION

8.1 Background was given in the report (attached) to the Executive Committee meeting on 23 July 2002.

8.2 The Multi-Party Working Group (MPWG) reconvened on 2 October 2002 and considered a number of rates and tariffs issues, including, the extension of the R50 000 value discount to individual units within sectional title developments and also to privately rented flats.

9. DISCUSSION/MOTIVATION

9.1 The MPWG was advised that the latest estimate of the number of individual units in 3185 residential sectional title developments is 61350. The "units" comprise flats, houses, maisonettes and townhouses.

9.2 Based on 61350 units, the additional cost if each unit were to receive the R50 000 value discount is R28,8 million. Notwithstanding the financial constraint in granting this concession, the MPWG supported the extension of the value discount to individual units.

9.3 The MPWG considered the principle of extending the R50 000 value discount to properties that are privately rented. The proposal by the Executive Committee that ways be found of ensuring that the tenant received such benefit and not the owner of properties was also considered.

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- 9.4 The MPWG concluded that it was impractical to try and enforce that tenants received the benefit of the value discount. It was also considered that as the basis of valuation for properties used for rented accommodation is different (i.e. based on capitalised rentals rather than "market value"), the Group did not support the extension of the value discount to rented properties.

10. FINANCIAL IMPLICATIONS

- 10.1 The estimated cost of extending the R50 000 value discount to individual units in **residential sectional title developments is R28,8 million.**

- 10.2 No realistic estimate is available of the cost of extending the value discount to **privately rented properties**. It is known that there are 2174 "blocks of flats", but the number of units is not known. Earlier rough estimates put the cost at R38 million which included also granting the 30% residential rebate which does not currently apply to privately owned rented properties.

- 10.3 The MPWG was advised that there are currently a number of issues requiring funding from the Operating Budget which must be identified, including part of the nationally negotiated pay award (R70 million), and the reduction in electricity tariffs to large users (R50 million). The source of funding for these items and any further rates concessions that may be granted by Council still need to be identified.

11. STAFF IMPLICATIONS

None

12. RECOMMENDATION

- 12.1 The MPWG recommends that the R50 000 value discount be extended to individual units in residential sectional title developments.

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**MULTI-PARTY WORKING GROUP
EXECUTIVE COMMITTEE
COUNCIL**



AUTHOR OF REPORT

Mr M Richardson

Date: 8/10/02

Head of Department/Interim Manager
Mr D Heywood

Comment :

Tel. No.: _____

Date: _____



Strategic Executive/Executive
Director/Director

Comment :

Tel: 600-5797

Date: 11/10/2002

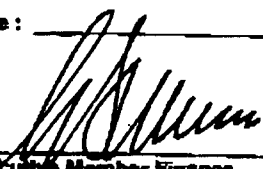
*PLEASE TAKE NOTE OF ASMT
10.3 IS NO FUNDING EXISTS FOR
THIS CATEGORY AT THIS TIME, AND
IT HAS YET TO BE IDENTIFIED.*

~~_____
Executive Director : Finance~~

Comment :

~~Tel No.: _____~~

~~Date : _____~~



Executive Member Finance

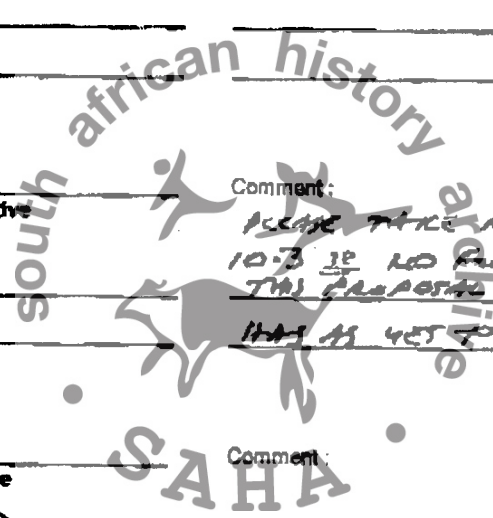
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Date: 10/10/02

Executive Member

Comment :

Date : _____



MULTI PARTY WORKING GROUP
EXECUTIVE COMMITTEE 969
COUNCIL

R50 000 VALUE DISCOUNT : SECTIONAL TITLE PROPERTIES

(H05/5/3)
(Mr M Richardson)
(Cape Town Administration)
(400-3265)
(2002-06-18)

1. EXECUTIVE SUMMARY

- 1.1 At the meeting of the MPWG held on 12 June 2002 , the issue of Sectional Title properties was discussed , specifically the granting of one value discount per property , not one per individual unit within the sectional title development . A report on the matter was requested.

2. BUSINESS PLAN REFERENCE

Service - Financial Services

Directorate – Budget - Valuations

Business Plan Heading - GV Implementation

3. COMPLIANCE WITH STRATEGIC OBJECTIVE

N/A

4. DELEGATED AUTHORITY

Council – Not delegated.

5. ANNEXURES/ADDENDA

Addendum A:

Addendum B:

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6. POLICY

This forms part of the Council's Rating and Tariff Policy.

7. LEGAL REQUIREMENTS

LGTA – Section 10G (saved in the Structures Act 1998).

8. BACKGROUND/INTRODUCTION

8.1 The implementation of the 2000 General Valuation Roll across all properties within the City's boundaries provided the opportunity to review all existing rating and tariff policies to introduce a common rates and tariff policy. At its meeting on 29 May 2002, Council adopted a range of proposals by the Multi Party Working Group for uniform rates and tariffs from 1 July 2002.

8.2 One of the proposals adopted by Council aimed at assisting the poor was for a "value discount" to residential properties, whereby the first R 50 000 of improved municipal value is not rated. This concession was granted to all residential properties defined in the report, but, excluded the individual units within sectional title developments. Only one value discount of R 50 000 is made to a sectional title development, regardless of the number of units within the development.

8.3 The application of the value discount to such properties has caused some reaction, both within Council and from the public. At its meeting on 12 June 2002 the MPWG requested that a report be submitted to its next meeting on this issue.

9 DISCUSSION

9.1 Poverty alleviation (the plight of the poor) was a primary consideration of the MPWG from the outset and many of the measures and concessions considered by the Group were directed at this objective . At the same time , the question of equity was important and the treatment of all ratepayers on an equal and fair basis.

9.2 A number of concessions were considered by the Group and formed part of its recommendations to Council or are still to be recommended to Council . These include ;

- Residential rebates , which in effect is a reduced cent in the rand for the " residential " category of property ,

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- Specific rebates to " use categories " , for example , agricultural land , properties used for welfare purposes, educational purposes , sporting bodies, etc,
 - Individual rebates , based on category of " person " , for example , the elderly , disabled , single parents.
 - Property types , such as heritage buildings.
- 9.3 In addition , the Working Group looked at providing further relief to residents of lower value property by discounting the basis on which rates were assessed . This was done by allowing a " value discount " before rates were calculated . All " residential " properties were given this concession , which was eventually assessed at R 50 000 per property, but the greater benefit is clearly provided to lower valued properties. Properties valued at R 50 000 or less pay no rates at all . Properties valued at , say R 100 000 , are paying half the rates that they otherwise would be required to pay and the benefit in relative terms diminishes as values increase . It should be noted that this type of rebate has not been used before by any of the previous local government bodies in the City area.
- 9.4 The definition of " residential property " for the purposes of granting concessions was included in the proposals adopted by Council. It is , however , important to understand that within the definition of residential property , not all properties used for domestic purposes are within the classification . Rented flats, for example , is excluded and not only from the value discount , but also from the 30 % reduced cent in the rand . Sectional title properties do receive the 30% residential rebate.
- 9.5 Although sectional title developments consist of varying numbers of units, in law the " property " is the total or the full extent of all units. Within the Council's billing systems , the individual units are not recognised and one account is rendered to the " property " in the name of its Body Corporate.(some systems use an indicator in the property reference number that there are multiple units to the property)
- 9.6 All proposals considered by the Working Group had to be assessed for cost and impact . The basis for this assessment was a model constructed from the six billing systems currently utilised by the City to render accounts . These will be replaced next year by the SAP system currently under development which will introduce one billing system for the whole City.
- 9.7 Within the model used to assess the rates and tariffs , sectional title developments and their individual units could not be identified , as the total development was represented as one property. Therefore when the implications

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of the proposed value discount were assessed , only one discount was applied. There are some 2000 such developments , comprising approximately 50 000 units that are affected.

9.8 One of the constraints imposed on the Working Group in establishing a uniform rating tariff policy , was the capacity of the City to implement the proposals. This constraint arises from the current situation of having six billing systems and , moreover , the impending transition to a new system which precludes the significant amendment to existing systems to cater for rates and tariff structures not previously used. The value discount was a new type of concession , not previously used. This was not a problem for the majority of " residential properties " , but was a problem for applying it to individual units in a sectional title development .

9.9 It must be noted that the latest drafts of the Property Rating Bill provide for the separate valuation of sectional title units and the rendering of accounts to the occupiers of the units , not a body corporate (or managing agent) . This will remove the current problem with the value discount . It is expected that the Bill will be enacted in the next session of Parliament . However, the requirement to value separately would only apply to General Valuations conducted in terms of the new legislation.

10 FINANCIAL IMPLICATIONS

10.1 The cost of applying the value discount to individual units in section title developments would be approximately R22 ,45 million , based on 50 000 units. No provision exists for this in the 2002/2003 Budget as the calculation of the cent in the rand excluded this concession.

11. STAFF IMPLICATIONS

Not applicable.

12 RECOMMENDATIONS

It is recommended that ;

12.1 the non-application of the value discount to individual units in section title developments be noted as being within the legal and technical capacity of the City;

EXECUTIVE COMMITTEE**RATES AND TARIFFS - 2002 / 2003 - R50 000 VALUE DISCOUNT - SECTIONAL TITLE AND PRIVATE RENTED PROPERTIES**

FILE REF 5/9/11 ~ 2002 / 2003

(M J RICHARDSON)
(CITY OF CAPE TOWN)
(021) 400-3265
(11 July 2002)

1 EXECUTIVE SUMMARY

- 1.1 At the special Executive Committee meeting held on 25 June 2002 it was resolved, *inter alia*, that a further report be submitted to Exco and Council giving full financial details of how the R50 000 value discount, if applied to sectional title and private rented properties, would be funded.

2 BUSINESS PLAN REFERENCE

Directorate : Financial Services

Department : Budgets

Business Plan Reference : Budget and General Valuation Implementation

3 COMPLIANCE WITH STRATEGIC OBJECTIVE

Not applicable

4 DELEGATED AUTHORITY

Council - not delegated

5 ANNEXURES

None

6 POLICY

Not applicable

7 LEGAL REQUIREMENTS

Council sets rates and tariffs in terms of Section 10G of the Local Government Transition Act 1993.

8 BACKGROUND / INTRODUCTION

8.1 At its meeting on 25 June 2002 the Executive Committee considered a report "R50 000 Value Discount : Sectional Title Properties" dated 18 June 2002.

8.2 Following discussion of the technical, legal and financial constraints involved in extending the R50 000 value discount to sectional title properties, Exco resolved that a further report be submitted providing details of how the concession could be financed. In addition, the Committee requested details of the implications of extending the concession to privately rented properties, including ways in which it could be ensured that the tenant of rented accommodation receives the benefit.

9 DISCUSSION / MOTIVATION / PROPOSAL / EVALUATION / ASSESSMENT

9.1 Sectional title developments are reflected in Council's billing systems as one property, with the owner being the Body Corporate to who the accounts are rendered. Some of the systems hold details of the number of units, reflected in the reference number or a field in the system. This is used to allocate the "free water" concession. Properties used for private rental do not reflect the number of units either but again, the free water is currently given on the basis of an affidavit as to the number of units in the development.

9.2 Although individual units are not currently billed or even necessarily identified in the billing systems, an alternative method could be found of applying the value discount. If it cannot be done directly through the raising of the rates account in the billing systems, it could perhaps be achieved by a manual credit to the account on an annual basis. Changes to the six billing systems is not a practical option when a change-over to the SAP system is planned in the near future. The best mechanism to be used needs to be the subject of a further report after all possibilities have been considered.

9.3 Confirmation of the number of units in sectional title developments or private flats needs to be made. This can be achieved by inspection by Council's valuers or private valuers. Details may be available in the records of the 2000 General Valuation.

9.4 The latest information available on sectional title properties from the valuation records indicates that there are 2 215 developments, comprising 51 750 units. Should the R50 000 value discount be extended to these properties the cost would be R25 590 375. The valuation records indicate that there are 2 174 "blocks of flats", but no information is currently available on the number of units involved. Many of these include "commercial" components such as shops and it will require further research to ascertain the number of residential units only. If the sectional title properties were used as a guide, some 50 000 properties could again be involved with a "cost" of lost revenue of approximately R25,0 million.

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- 9.5 If Council was to consider putting privately rented properties on a par with privately owned residential properties for rating purposes, then it should consider also granting the 30% residential rebate. Using the value of the 2 174 properties listed as having residential / commercial usages, the 30% rebate could amount to a reduction in rates of approximately R13,0 million.
- 9.6 At the time of preparing this report, the Revenue Services Directorate are busy loading the billing systems with the new tariffs and rates approved by Council, in order to render the July accounts. It has not, therefore, been possible to devote resources to extracting accurate details of properties as would be required to properly assess the impact of the proposals made by the Executive Committee at its meeting on 25 June 2002. Once the billing systems have been correctly loaded and operating, more time can be devoted to the task.
- 9.7 Similarly, a mechanism for ensuring that any rates concessions granted in respect of private rented residential properties is passed on to tenants still need to be investigated and must be the subject of a further report.
- 9.8 Extending the R50 000 value discount to all sectional title properties and privately rented residential properties could require additional income or cost savings amounting to R50 million. If the 30% residential rebate were granted to privately rented properties this would increase the amount to R63 million. Unfortunately, there was a misunderstanding between Financial Services and Exco when it was previously stated that the funding for these concessions in whole or in part, had already been identified.
- 9.9 The inclusion of R145 million in the 2002 / 2003 Operating Budget to fund Indigent Grants to poorer households, growth in the Municipal Police and other growth items placed particular constraints on all services to balance the Budget to an inflation related rates increase. To identify further cuts in expenditure or additional income at this early stage of the financial year is extremely difficult.
- 9.10 As the year progresses, the possibility of funding these further concessions will become clearer. Later this month, Council will note the 2002 / 2003 Interim Valuation and it is possible that this will yield more income than originally budgeted for. Similarly, allowances were made for subsequent reductions to rates income from granting rebates to retired and disabled persons and from the valuation objection process. There may prove to be a surplus of budgeted income here that could be used. It is too early yet to assess these issues.
- 9.11 Clearly, before Council can take an informed decision to extend the value discount to other categories of residential properties further information is required. It is therefore proposed that the current constraints to implementing the recommendations of Exco on 25 June 2002 be noted and official be requested to report again when more accurate financial implications have been determined and the practical constraints of applying the concessions overcome.

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10 FINANCIAL IMPLICATIONS

10.1 The costs of the proposed concessions can only be approximately assessed at this stage and are deemed to be R50 million for the R50 000 value discount and a further R13 million for the residential rebate. It must be stressed that in the absence of the detail as discussed under Point 9 above, this approximation can be best described as a guess and that further work is required to refine the quantum of these proposed concessions.

10.2 The source of funding cannot be confirmed at this time.

11 STAFF IMPLICATIONS

11.1 Until the methodology for applying the concessions has been determined, the staff implications cannot be assessed.

12 RECOMMENDATION

12.1 It is recommended that a further report be submitted in due course.



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FINANCE EXEC SUITE

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CITY OF CAPE TOWN
IBUKHO BASEKAPA
STAD KAAPSTAD

To His Worship the Mayor

Dear Sir

Please find reports entitled R50 000 Value Discount - Sectional Title Properties and Draft Rebate Scheme for Properties in Rural Areas, other Rebates and Grants in Lieu or Rates.

Due to unforeseen circumstances this report did not make the agenda deadline set for the submission of reports to Executive Committee.


The MPWG has requested that these reports be submitted to the Executive Committee meeting scheduled for the 15 October 2002.

Your consideration for the placement of these Reports on the Agenda for the next Executive Committee meeting would be appreciated.

Yours Sincerely


EXECUTIVE DIRECTOR : FINANCE


ALDERMAN G MELLET


MAYOR FOR APPROVAL
11/10/02



ADDENDUM F

Council 1 November 2002

Item SPC24/10/02

R50 000 VALUE DISCOUNT – SECTIONAL TITLE RESIDENTIAL PROPERTIES

Explanatory notes on the process required to implement the above:-

- 1 The rebate will have to be advertised for objections in terms of the LGTA.
- 2 Council will have to consider objections (bearing in mind the Summer recess may cause a delay).
- 3 There would be a need to identify the number of units per property – this can be done via a specific communication from Council whereby an Affidavit can be completed by the applicant, indicating the number of units.
- 4 This information would be compared with Council's Valuation System and, if different, a site visit will be done.
- 5 Upon verification of the number of units, a credit for the full year can be passed.

