

**UBUNTU MUNICIPALITY**

**RATES POLICY**

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# UBUNTU MUNICIPALITY

## RATES POLICY

### 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 proposed draft rates policy of Ubuntu Municipality to which residents/communities are invited to make suggestions/recommendations to the municipality by .....(date). Based on the public submissions, the municipal council will make a final decision. Where necessary oral presentations would be requested including bilateral meetings to obtain clarity on the submitted comments as well as further motivations thereof.

Ubuntu Municipality need a reliable source of revenue to provide basic services and perform its functions. Property rates are the most important source of general revenue for the municipality. Revenue from property rates is used to fund services that benefit the community as a whole as opposed to individual households. These include installing and maintaining streets, roads, sidewalks, lighting and storm drainage facilities; and building and operating clinics, parks, recreational facilities and cemeteries. Property rates revenue is also to fund municipal administration, such as computer equipment and stationery and costs of governance, such as council and community meetings, which facilitate community participation on issues of Integrated Development Plan (IDP) and municipal budget.

Ubuntu Municipality will set, collect and use property rates locally. Revenue from property rates will be spent within the municipality, where the citizens and voters have a voice in decisions on how the revenue is spent as part of the Integrated Development Plan (IDP) and budget process, which the municipality invites communities to input prior to municipal council adoption of the budget.

#### 2. DEFINITIONS

“**Act**” means the Local Government: Municipal Rates Act, 2004 (Act No. 6 of 2004);

“**Agriculture**” 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 identical to such business, with the exclusion of the business of mining, agriculture, farming, or inter alia, any other business consisting of cultivation of soils, the gathering in of crops or the rearing of livestock or consisting of the propagation and harvesting of fish or other aquatic organisms;

“**Industrial**” means a branch of trade or manufacturing, production assembling or processing of finished products from raw materials or fabricated part, on so large 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 were not levied by 30 June 2005, 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 Benefits 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, basin, quay 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 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 or rooms which form 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, and boarding and under taking, 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 service.
- (c) State properties that provide provincial/national service.

“**Vacant Land**” means a land 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 minimize 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;
- Agricultural properties used for agriculture purposes;
- Agricultural properties used for eco-tourism or conversation;
- Agricultural properties used for the trading in or hunting of game;
- State-owned properties:
  - (i) State properties that provide local services;
  - (ii) State properties that provide regional/municipal district-wide/metro-wide service; and
  - (iii) State properties that provide provincial/national service.
    - Municipal properties;
    - Protected areas;
    - Multiple use properties; and
    - Vacant land.

## **5. CRITERIA FOR RATING MULTIPLE USE PROPERTY**

The following criteria are proposed by the municipality:

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

Ubuntu Municipality may opt for the option of not creating a “multiple use property” category, but to classify all multiple use properties within its jurisdiction in terms of Section 9(1)(a) of the Act, or, may decide to classify these properties in terms of Section 9(1)(b) of the Act.

## **6. CRITERIA FOR DIFFERENTIAL RATING ON DIFFERENT CATEGORIES OF PROPERTIES**

The following has been 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 will be rated higher (in terms of a Cent amount in a Rand) as the municipality is encouraging owners of vacant land to develop it and that the vacant land should not be used for speculation purpose by owners.
- Promotion of social and economic development of a municipality.
- Differential rating among the various property categories will be done by way of setting different Cent amount in the Rand for each property category rather than by way of reductions and rebates. This is much simpler for citizens to understand and thus promotes the principle of transparency.

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

### **7. CRITERIA FOR EXEMPTIONS, REBATES AND REDUCTION**

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 is 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 significantly negatively affected.

## **8. GRANTING OF EXEMPTIONS, REBATES AND REDUCTIONS**

The exemptions, rebates and reductions will be considered after an application accompanied by relevant documents (SARS status, pension or social grant proofs) including affidavit has been lodged with the municipality on an annual basis. These applications must reach the municipality before the end of October preceding the start of the new municipal financial year for which relief is sought.

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

In order to alleviate rates burden on the poor, the following exemptions and rebates are proposed:

### **Exemptions:**

- Indigent owners
- Owners dependent on pensions or social grant for their livelihood;
- Owners of residential property whose market value is below R 30 000.00 before the first R 15 000.00 mandatory exclusion.

### **Rebates:**

- Owners of residential properties whose properties market value is between .....and .....before the R 15 000.00 exclusion are given ..... % rebates on the rates payable.

## **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, it is proposed that Public Benefit Organisations (POB's) performing the following specified public benefits activities be exempted from rating:

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

## **11. EFFECT OF RATES ON PUBLIC SERVICE INFRASTRUCTURE**

It is proposed that all components of Public Service Infrastructure be exempted from payment of rates as they provide essential services to the community.

## **12. EFFECT OF RATES ON PROPERTIES USED FOR AGRICULTURAL PURPOSES**

Taking into account the following factors:

**(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 proposals also apply to the mining sector.*

**(b) The contribution of agriculture to the local economy:**

It is proposed that a rebate of 5% 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 contribution to the social and economic welfare of farm workers:**

It is proposed that the following rebates be granted:

- 5% rebate, if the owner is providing permanent residential to the farm workers and such property is registered in the name of these farm workers, proof must be provided.
- 5% rebate, if such residential properties are provided with portable water.
- 5% rebate, if the farmer for the farm workers electrifies such residential properties.
- 5% rebate, if the farmer is availing his land/buildings to be used for cemetery, education and recreational purposes of the farm workers' children and near by community in general, etc.

**13. OTHER EXEMPTIONS**

- 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 that community who officiates at services at that place of worship in terms of Section 17(1)(i) of the Act. 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.
- State properties that provide local service are exempted from rating for example public schools and clinics, police stations.
- Municipal properties that are not leased or rented out by the municipality.

## 14. REDUCTIONS

### Management of shocks

Ubuntu Municipality will limit 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 makes the point clear:

Property A's market value has increased from R 60 000 to R 70 000 due to a compilation of a new general valuation roll. Rates payable by property A to the municipality will increase from R 600 to R 700 if the market value of this property is.

### 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 **625**;  
1<sup>st</sup> Year in new cycle 70 000 **700** 62 500 **625**;  
2<sup>nd</sup> Year in new cycle 70 000 **700** 62 500 **650**;  
3<sup>rd</sup> Year in new cycle 70 000 **700** 67 500 **675**;  
4<sup>th</sup> (last) Year in cycle 70 000 **700** 70 000 **700**.

Not phased-in and the Cent amount in a Rand is constant at one Cent.

To minimise rates shocks from R600 to R700, the phasing-in of market values over a period of four years is used in the manner illustrated on the above table and outlined below:

**Year 1:** the market value if R 62 500 at one Cent will yield rates payable of R625 instead R700 if the phasing-in was not used.

**Year 2:** the market value of R 65 000 and at one Cent will yield rates payable of R650 instead of R700 if the phasing-in was not used. The same principle applies for year 3 and year 4. This means the 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 affected 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 THE MUNICIPALITY DUE TO EXEMPTION, REBATES, REDUCTIONS, EXCLUSIONS, PHASING IN AND THE BENEFIT THEREOF TO THE MUNICIPALITY

The cost of the municipality of having granted the relief measures (exemptions, rebates and reductions) short of qualifying such costs in Rand and Cent are the following: .....  
(list them).

The following will be 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, sports institutions, schools and other non governmental organisations which promote health and other benefit to the community.
- Improved local economic growth.

## **SECTION E: RATES INCREASES/DECREASE**

### **16. CRITERIA FOR INCREASING OF RATES**

It is proposed that the following 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 will treat the owner of such property for the purpose of liability for rates in the following manner:

The municipality has considered the following three scenarios:

#### **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 among 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 owner 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 among 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 a municipality in writing as to who is liable for rates regarding agricultural property, a 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.
- A 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 a Rand) will be reflected in the budget.

## **19. ANNUAL REVIEW OF RATES POLICY**

The municipality will annually review, 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 from the start of the municipal financial year.

## **ADDENDUM:**

### **LEGAL REQUIREMENTS THAT ALL MUNICIPALITIES MUST COMPLY WITH IN TERMS OF THE MUNICIPAL PROPERTY RATES ACT, 2004 (ACT NO. 6 OF 2004) WITH REGARD TO RATES POLICY DEVELOPMENT**

This addendum does not contain all provisions of the Act that must be complied with in the development of rates policy, but list just a few provisions key provisions that the municipality deems it necessary for residents/ratepayers to be aware so that they get 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 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 of four years depending of 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 .....

#### **(4) LIMITS ON ANNUAL INCREASES OF 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. These set upper limits are as follows: .....

