

USING THE PROPERTY REGISTER TO ENABLE MUNICIPAL SUSTAINABILITY

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Abstract

Section 23, Local Government: Municipal Property Rates Act, 6 of 2004, (hereafter MPRA) prescribes for the establishment and maintenance of a property register for every local municipality within South Africa. Internationally the property data base which includes values for the purposes of property rating is known as the fiscal cadastre. Limitations to the current legislative provisions, contradictions within the institutional arrangements especially within the national tier of government and various interpretations at the operational or local government level result in the property register falling short of global good practice.

This study investigates the linkages between the property register, effective property taxation and municipal sustainability in local government in South Africa

1. Spotlight on financial accountability

The central message of South African Auditor-General's (hereafter AG) latest report is that local government 'accountability for financial and performance management continues to deteriorate'. The AG points out that: 'While the poor economic climate does play a role in the deterioration of municipalities' financial health, many are just not managing their finances as well as they should'. For example, there are audited reports for fruitless and wasteful expenditure amounting to R1,3 billion for the period under review. The AG's audits highlighted two key areas of impact:

- The financial health of municipalities
- The delivery and maintenance of municipal infrastructure.

Accountability failures negatively affect the lives of citizens. The financial health of municipalities or their inability to collect debt from municipal consumers is widespread. In these circumstances it is inevitable that municipalities will struggle to balance their books. In total, 34% of the

municipalities disclosed expenditure that exceeded their income (deficit) – the total deficit for these municipalities amounted to R5,8 billion. According to National Treasury, 60 of the 62 defaulting municipalities in 2017/18 tabled unfunded budgets. This means they committed to spending more than they can generate as revenue or government’s allocation to them. In most cases, operating expenditure was greater than revenue.

The financial woes of local government also weigh heavily on municipal creditors. The impact of this inability to pay creditors was most evident in the huge sums owed for the provision of electricity and water to ESKOM, the electricity utility, and the various district water boards respectively. Five provinces responded to the impending financial crises through provincial intervention by placing a total of 18 municipalities under administration within the 2018/19 financial year.

2. Property tax coverage and the property register

Sustainable local government requires adequate financial resources. Countries around the world use recurrent property taxation as a source of revenue for local governments (Kelly, 2000). Property taxes are popular ‘because they produce reliable, stable, independent revenue for the governments closest to the people and there is no clearly superior alternative for providing fiscal autonomy.’ (Mikesell 2003). Mathur et al (2009), in their study of India, describe recurrent property tax as a key ingredient of fiscal empowerment for municipal governments. Property tax is an important, possibly the most important, revenue source for local governments in much of the developing and developed world.

Property tax is difficult to avoid and, if well administered, can represent a non-distortionary and highly efficient fiscal tool (McCluskey 1999; Slack 2013). All governments need money in order to pay for the cost of infrastructure and public services. For property rates to be administered equitably all the properties within an identified jurisdiction must be included within the tax net. This aspect of property taxation is referred to as coverage. The completeness of the application of property tax is premised on coverage. The municipal register of properties is the property data base used for the purposes of rating. Yet the legislative provisions for the property register within the MPRA could be reformed to contribute to the sustainability of local government. My research will recommend that the municipal register of properties required for property rating may also

be used as a revenue management tool to support municipal sustainability. This approach provides local government with a readily accessible geospatial data base against which to report their financial performance.

3. The business of local government

A key problem affecting the efficiency and effectiveness of property tax administration in most developing countries is poor record-keeping. According to Mathur et al (2009) the first determinant of revenue performance is the percentage of properties that are on the municipal tax register. This drives the percentage of properties that are assessed for tax purposes and hence the percentage of tax-paying properties. In their study of India, Mathur et al (2009) found that the absence of a formal count of properties for the purposes of property taxation was a major handicap in accurately estimating property tax potential.

The conclusion is that municipal financial sustainability is largely determined through accurate data. The business of local government is no different to any other business. It is primarily transaction driven: Expenses out and revenue in. The challenge facing most of our municipalities is cash flow and accounting for expenses. The latest reforms introduced by South Africa's National Treasury prescribe a Municipal Standard Chart of Accounts, mSCOA. These regulations prescribe the municipal reporting formats. Each financial transaction within local government must be reported against a series of prescribed accounting segments. The one which is most important for geospatial reporting is the regional segment. The regional segment enables decision makers to view reports on a spatial platform.

Generally, municipalities have run their various business units as separate entities, each with their own data sets. National Treasury's mSCOA business reforms also prescribe seamless integration between the municipal financial system and the respective sub systems to the general ledger. The financial system, the property register, and the valuation roll management system are all linked through an automated programmatic interface (hereafter API). The regulated municipal business streams positions the property register within the valuation roll management system. This is a logical selection as the property register is provided for within the Local Government, Municipal Property Rates Act, 6 of 2004, section 23, (hereafter MPRA). The challenge is that most municipalities have not yet elevated their existing tabular registers to the geospatial property registers required for

the transactional reporting against the locational or regional segment. Geospatial registers enable mSCOA compliancy. Tabular registers fall short of this requirement. Accurate geospatial property registers predicate tax efficiencies for local government.

4. Maintenance of property registers

Property registers require continuous maintenance and updating. Property is bought and sold, sub divided, consolidated, buildings are completed, and re-zoning applications are approved. All these section 78 (MPRA) movements trigger a change in the value of the respective properties. These changes are required for the supplementary valuations and valuation roll maintenance. Supplementary valuations require a re-valuation of the properties to reflect the adjusted market value as a result of the changed attributes. The MPRA amendments enforce roll maintenance to smooth incoming rates revenue for municipalities and to incur the least prejudice to the ratepayers through the raising of rates arrears.

Good data is a process. It doesn't just happen; it requires a consistent investment and maintenance by each respective municipality. A record by record alignment between the property register, the valuation roll, and the financial system will provide an immediate escalation in revenue for any municipality.

Incomplete and inaccurate data sets which aren't maintained are a liability to the municipality. Municipalities should guard against using flawed datasets to inform their decision-making processes. For example, unless property data is accurate electricity disconnections and other unpopular enforcements may be misdirected. This is a real risk to the municipality.

5. Data accessibility and municipal accountability

There have been various initiatives to professionalise the local government sector. 'This requirement was unfortunately repealed by legislation and there is a need to review this position and re-introduce this as a requirement (Peet du Plessis, CIGFARO President, 2019). The reality is that certain strategic decision makers within municipalities don't necessarily have financial qualifications. Yet these decision makers are continually required to make strategic decisions which impact on the sustainability of their municipalities sometimes under pressured time and resource constraints. The challenge is to present data, both financial and non-financial, on an accessible and clear dashboard, placing accurate

information at the relevant fingertips. The hypothesis is that if our municipal managers and our honourable mayors are able to see the data they are working with then decision making would be better informed and the decision makers more accountable.

This is achieved if accessible customized reports themed according to the business of local government were developed for the relevant strategic officials. For example if you work within the Water Department you may wish to see revenue for water services per erf, the debtor age analysis for the water services, water meter reading data (actual vs estimated) data about where to locate tampered or damaged water meter units or to locate areas within your municipality where no water meters are installed and no water services are rendered.

Another example is returned accounts. This is an escalating phenomenon for municipalities as the economy slows and the ratepayer capacity to pay shrinks. Decision makers require a reliable report on which registered owners or ratepayers are returning their municipal accounts. Are these account holders the registered owners of the respective properties? With this data at hand the municipality may proceed with collections from the defaulting ratepayers without risk.

Experience shows that service availability charges are often inaccurate. A simple tool to match the respective erf with the relevant charges to ascertain whether billing is both complete and accurate. The data needs to be scalable and immediately accessible from individual owner queries to provincial and national reporting.

Screen Shots from A Geospatial Reporting Dashboard

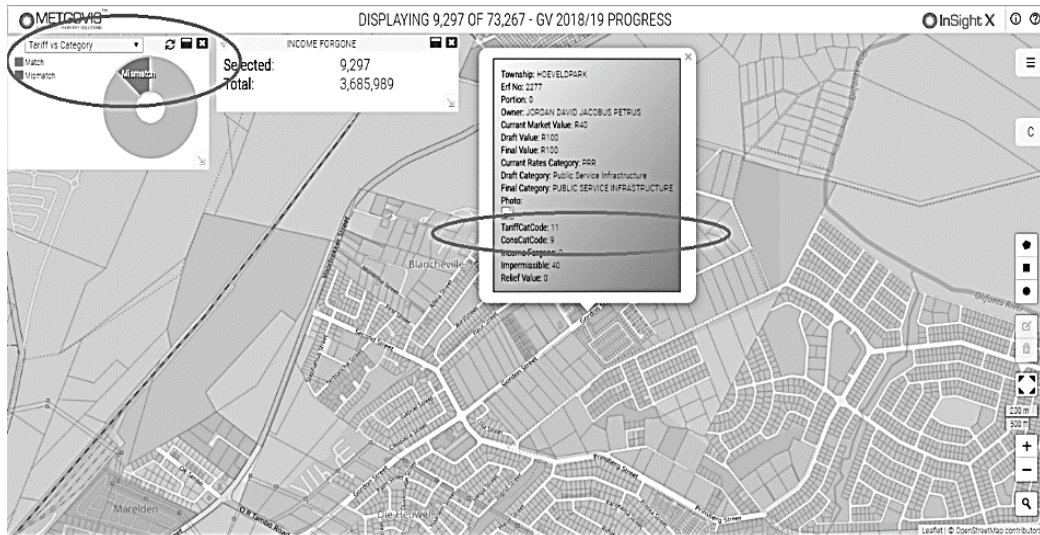


Figure 1: Billing vs tariff discrepancies: Mismatches between tariff codes and rating category

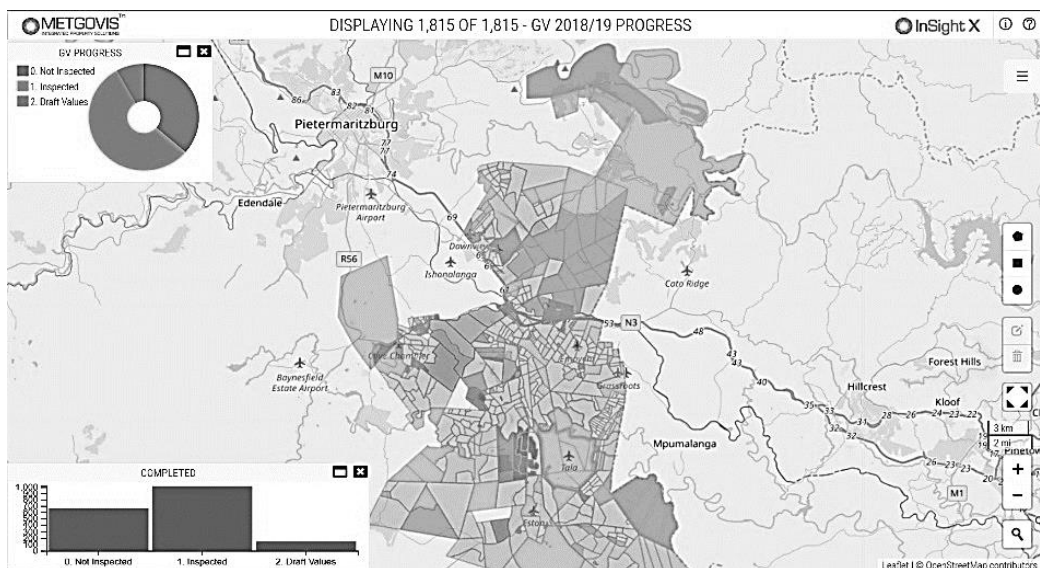


Figure 2: This dashboard tracks the project progress of a General Valuation project. Users may view the project progress in terms of the data collected, values modelled and finalised. The status of each property is viewable. Municipalities can use this application to verify the invoices received from their appointed service providers or to monitor internal processes.

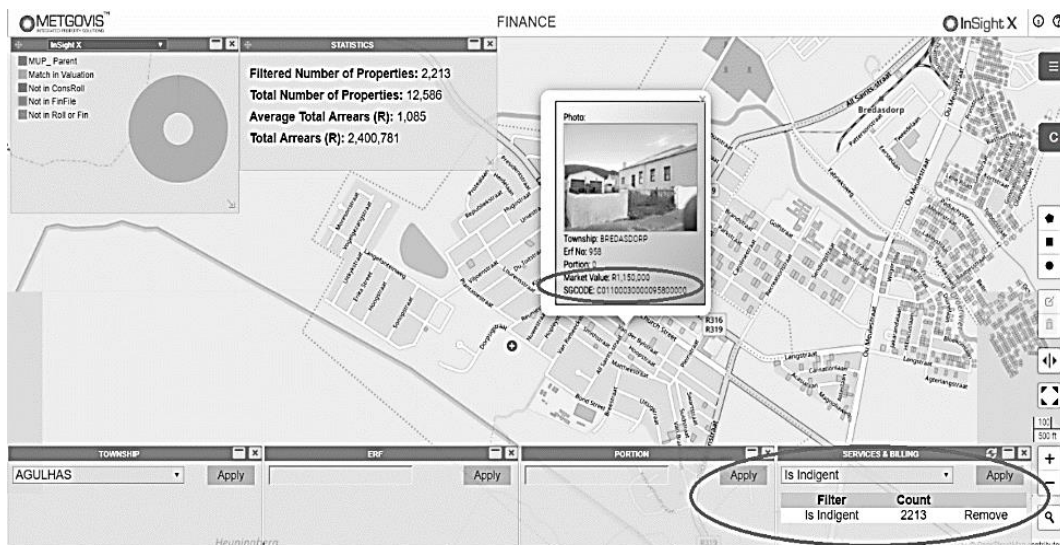


Figure3: The spatial representation of the municipal indigent registers

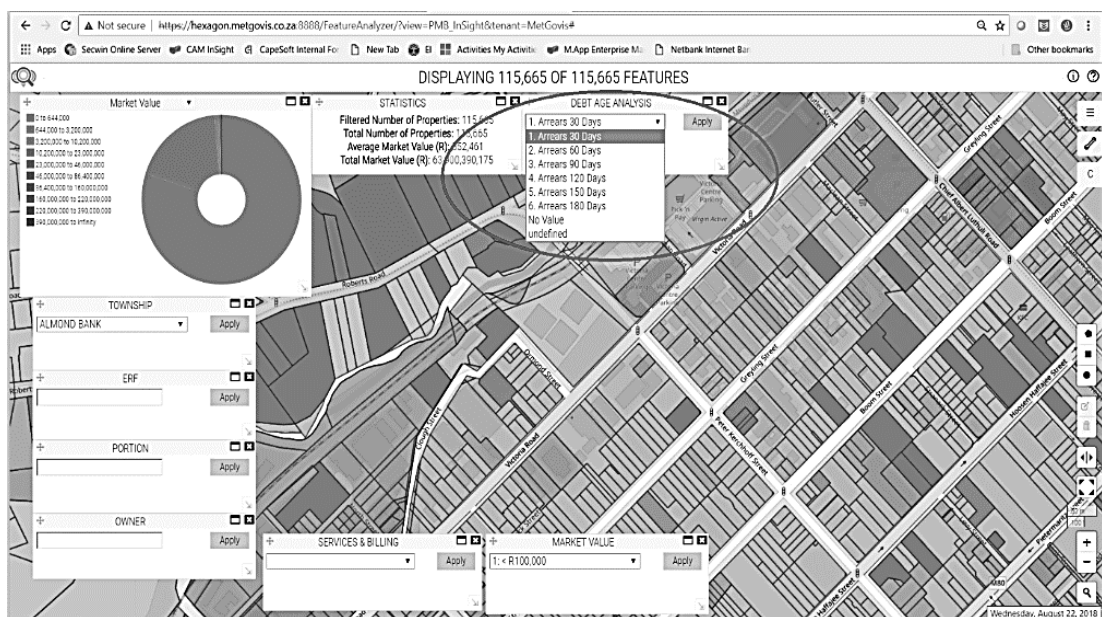


Figure 4: Debtors age analysis 30 / 60 / 90 / +120 days / overdue / handed over details as requested

6. Measuring municipal sustainability

Benchmarking or compare current performance with historical performance as a means of informing expectations of future performance is common practice in many spheres e.g sport, medicine, business and governance. This is true for both relative and absolute performance evaluation that is the comparison between peer groups and also

against historical measurements, objective benchmarks or targeted outcomes.

National Treasury assesses the state of local government finances and financial management that is the financial health of all South Africa's 8 metros, 19 secondary cities, 186 local municipalities and 44 district municipalities - in total 257 municipalities – through the following eight indicators:

- 1) Cash availability to meet its fixed operating expenditure requirements;
- 2) Persistence of negative cash balances (bank overdrafts);
- 3) Overspending of original operating budgets;
- 4) Underspending of original capital budgets;
- 5) Debtors as a percentage of own revenue;
- 6) Year-on-year growth in debtors;
- 7) Creditors as a percentage of cash investments; and
- 8) Reliance on national and provincial government grants.

Municipal Money (<https://municipalmoney.gov.za>) is an initiative of the National Treasury which hosts extensive amounts of municipal financial data. It is a free, impartial, politically neutral, online tool which discloses how municipal funds are spent. It allows comparisons between different municipalities and also by municipalities with their own historical records.

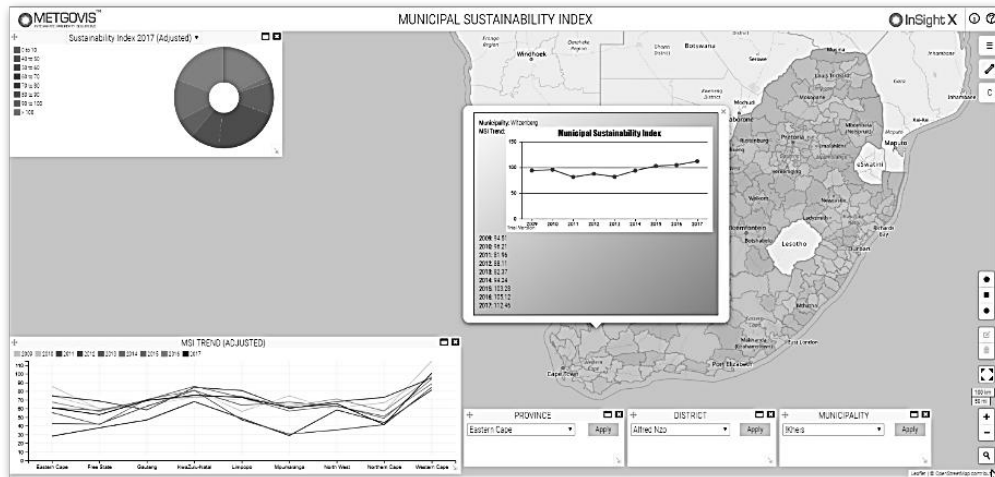
This data has been used to create a Municipal Sustainability Index (“MSI”) by equally weighting the National Treasury indicators to assess local government’s finances and financial management. These results illustrate the difference between those municipalities demonstrating fiscal prudence and responsible revenue management and those that are not.

While there are many possible applications for such an index it is anticipated that the initial applications will be for:

1. Private sector decision making about property investments e.g where to develop property or locate businesses, and
2. The municipalities themselves, in anticipation of their return to the capital markets The Minister of Finance, Tito Mbofeni, states ‘There is ample scope for creditworthy municipalities with strong financial management to increase local capital investment by expanding

municipal borrowing ... Reforms over the medium term will enhance the ability of municipalities to raise revenue to invest in their own development’.

Figure 5: Municipal Sustainability Index



Municipality	Province	District	MSI_2010	MSI_2011	MSI_2012	MSI_2013	MSI_2014	MSI_2015	MSI_2016	MSI_2017
KwaZulu-Natal	KwaZulu-Natal	Durban	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
KwaZulu-Natal	KwaZulu-Natal	uMhlabini	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
KwaZulu-Natal	KwaZulu-Natal	uMgungundlovu	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
KwaZulu-Natal	KwaZulu-Natal	uMzinyathi	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
KwaZulu-Natal	KwaZulu-Natal	uThukela	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0

7. Conclusion

This paper concludes that the MPRA provides for a basic tabular property register. This is insufficient for mSCOA and the prescription for regional segment reporting for municipal every revenue and expense transaction. Policy reforms are required if South African local government is to align with global good practice.

The establishment of a geospatial property register requires an investment in extensive data cleansing. The achievement of an accurate geospatial property register requires ongoing maintenance as the attributes of properties change. This geospatial data base is able to provide invaluable business intelligence to both financial and non-financial strategic decision makers within local government to enable better accountability and improved governance. These factors will enhance municipal sustainability which may be measured through the municipal sustainability index, MSI.

Link to the InSight website

<https://hexagon.metgovis.co.za:8888/Apps/?tenant=MunicipalSustainabilityIndex#login>

User = MSI_User

Password = MSI_demo

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