THE SOUTH AFRICAN VALUER

Southern Branch One-Day Seminar
Determination of “just and equitable” compensation
MPRA Seminar
MPRA Amendment Bill
MAXIMISING REVENUE IS ABOUT DOING A NUMBER OF THINGS RIGHT

More municipalities are focused on managing their revenues than ever before, and accountability and transparency are becoming paramount. Janet Channing, MD of MetGovis, reports from the IMF Convention in Durban. [30 September to 2 October 2013]

MetGovis sponsored the revenue management workshop at the recent Institute of Municipal Finance Officers (IMFO) Convention in Durban. Chaired by Peet du Plessis and including panelists George van Schalkwyk, Frans Rootman, Fathima Khan, Nantes Kruger and Phille Madonsela, the session was interactive and productive, generating 78 questions from the floor.

It all starts with the property register. Clearly, the starting point to manage revenues is the establishment and maintenance of an accurate property register. Without this spatial database, billing and revenue collection from water, electricity, waste and other services is virtually impossible to manage.

The key is to align municipal data sets from various sources – valuations, the financial system and deeds – and analyse them to establish a consolidated aligned result with no mismatches. The register must be maintained and updated with incoming deeds data to reflect the constant changes to property within the municipality: ownership changes, use changes, subdivisions, consolidations, zonings approvals, etc. Property data should viewed spatially and in real time. And this property register should remain the property of and reside with the municipality, not with an outside service provider.

Accurate valuations are key

Once the property register is in order, accurate valuations become key. Municipalities must prepare and maintain general valuation rolls at least every four years and a supplementary roll at least once a year – and it goes without saying that the rolls should be accurate and complete. The rolls form the platform for the levying of property tax within the municipality.

The audience at the workshop highlighted inadequate time provided for the procurement of service providers to prepare general valuation rolls. Poor planning results in a compromised deliverable. Municipalities were urged to make use of bid specification guidelines to ensure that these were tailored to accommodate data continuity. One of the proposed amendments to the MPRP was the introduction of more stringent monitoring by the respective provinces. Milestones for the procurement and appointment of service providers would have to be reported to the MEC. This would allow for corrective action to be taken in good time.

General valuation rolls bring changes that need action

A general valuation roll will prompt changes to certain data fields including values, categories and extents. If the roll has been prepared outside of the municipal system, there are often challenges with roll uploads to the billing systems. To achieve accurate billing, the valuation roll must balance with the financial system.

Discrepancy reports to identify mismatches between the financial system and valuation roll must be drawn and acted on. The Auditor-General requires that this task is done monthly in the larger municipal systems, and at least when each new roll is uploaded in the smaller ones. This procedure allows for proper control of all rateable property and measures the implementation of remedial action. Synchronisation between the financial system and the valuation roll protects municipal revenue.

A picture is worth a thousand words

Spatial functionality using sophisticated geospatial information service (GIS) for storing, manipulating, maintaining, analysing and displaying geographic data is essential. This spatially referenced data is ideal for solving operation, management and planning problems.

GIS data become a powerful analytical tool comprising information that is related geographically, and can be displayed in a format that allows the user to easily understand inter-relationships.

Revenue audits highlight billing inconsistencies. A revenue performance audit will enable a municipality to establish the correctness and completeness of its billing schedule, This is not a magic wand and will not produce immediate results. It takes hard work and constant application to clean up dirty data. The revenue audit reports support municipal management decisions regarding incomplete billing, arrears and bad debts. Using spatial reporting to reveal billing inconsistencies enables municipal management to see immediately where action is required and to measure the effectiveness of the corrective action.
Tariff modeling helps with accurate billing
Setting tariffs is a scientific exercise and municipalities were urged not to increase the existing tariffs year on year using a thumb-suck percentage escalation. Municipalities are mandated to improve the quality of life of their constituents and must be aware that increasingly the paying customer has the power to determine service delivery. Census data should be used to inform tariffs and budgeting. If a municipality has a growing population but fails to increase its capacity for delivery, then this should be questioned. One speaker stressed that it was immoral to increase water tariffs when the management of water losses was neglected.

The Consumer Protection Act should not be feared
The Consumer Protection Act (CPA) was enacted to protect consumers, especially the poor, illiterate and vulnerable. The CPA interfaces with other legislation: the Municipal Systems Act, the Batho Pele principles and the King Reports. All of these promote good governance, transparency and fairness to the consumer. Municipalities may not discriminate against communities unfairly but it was stressed that fair discrimination is endorsed. Municipalities offer free basic services to the indigent, and rates relief to pensioners. The CPA states that communication must be through the use of plain language.

Increasing municipal revenue is about doing a number of basic steps well, and properly documenting the steps. Municipalities that are still struggling with this should seriously consider enlisting expert help, as increasingly active consumers are not going to settle for below-par service delivery.

By Janet Channing, MD of MetGovs
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The need for access facilities in SA's commercial property arena

In today's fast moving and economically challenging business environment it is increasingly necessary to have access to available funds in order to secure transactions as they arise or reinvest capital into a business at short notice. However, according to Gary Palmer, CEO of Paragon Lending Solutions, most South African businesses do not always have the means available to access funds at short notice from traditional lenders, which can significantly hinder business growth.

Palmer says that businesses and property investors who take out commercial property loans from banks are often restricted when it comes to accessing funds, as they are not able to access the loan for funds as one can do with a residential property loan. He says this has always been a problem for businesses and property owners in South Africa.

"Residential property loans have historically been designed as an access facility for clients, which means that as clients pay down the loan they are then able to draw back up on the loan to the original facility amount when the need arises. Banks don't, however, allow the same flexibility with commercial property loans, as it carries a different risk profile." Palmer explains that property owners usually pay commercial property off over ten years, as opposed to residential property, which is traditionally paid off over 20 years. "For commercial property loans banks often want the term of the loan to mirror the length of the lease."

He notes there is therefore a need for access facilities on commercial property amongst businesses. "With this type of facility available property owners will have access to funds at all times and can move quickly on business transactions which often have very short lead times. "A big advantage for business owners who have access to this type of facility is that one can essentially treat commercial property loans as an access facility." Palmer says that besides the flexibility to move quickly with transactions, access facilities also allow property owners to invest additional cash surpluses into the loan thereby saving on the higher interest with the ability to get access to the capital when the need arises.

"In today's quick moving business environment it is increasingly necessary to have this type of access to funds available, and business-owners can stand to benefit greatly from the various advantages. Paragon has been offering access facilities on commercial property for a number of years and our clients find huge benefit with this product," concludes Palmer.