



# Government Digest

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July 2015 Volume 34 No 11



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# Municipal valuations:

The need for accuracy testing or roll validation, by Janet Channing, MD of MetGovis and finalist in Business Women's Association's 2015 Regional Achiever Awards

## Introduction

Municipalities calculate property rates using the property valuations published in their general valuation rolls, every five years for local municipalities, and every four years for metros. The Local Government: Municipal Property Rates Act prescribes that the value determined by the professional valuer must be "market value" – the value a property would realise in an open market transaction between a willing buyer and a willing seller.

Registered property owners are liable for the payment of property rates to their respective municipalities. It is important that the roll is accurate and ratepayers perceive the roll as fair.

## Roll accuracy

The municipal valuation roll is a tax platform, but it tends not to be profiled for its asset worth. eThekweni Metro's head of real estate, Keith Matthias, advises that the city with an operating budget of R39,976 billion (2015/2016 financial year) derives 21% of its revenue from its valuation roll. Most municipalities will have a similar revenue share from their property rates, making it a significant contributor to the municipal coffers.

The critical question is whether municipalities are equipped to assess the accuracy of their valuation rolls. Professional valuers should be pressurising municipalities for roll validation, as it profiles their professional reputations and secures future contracts.

## What is meant by accuracy?

Accuracy is how close the calculated value is to the true market value of the property on the date of valuation, or how accurate the mass valuation instrument is in the calculation of property values, based on the variables selected. Accuracy is most successfully tested using statistical measures such as regression analysis, where accuracy is expressed as  $r^2$  (the coefficient of determination).

## Challenges with the accuracy instruments

Statistical measures allow for a more precise calculation of valuation rolls. Research conducted by the University of Pretoria's Estie le Roux in a paper: "Examining valuation methods employed in the valuation of taxable properties: An analysis of the success of the Municipal Property Rates Act of 2004 in achieving a fair and equitable tax system", found that the only metro that uses statistical methods to measure their roll accuracy is the City of Cape Town. This metro scored the lowest in terms of roll accuracy, 70%. This result begs the question as to what the results would be if the same statistical measures were applied to the other municipalities?

## The urgent need for accuracy testing/roll validation

Municipal valuers must indicate their methods for achieving accurate property valuation results. These should be in line

Janet Channing



with international best practice and standards to meet the requirements of the Local Government: Municipal Property Rates Act, No 6 of 2004 (MPRA). The roll validation should be outsourced to an independent contractor procured by the municipality.

## Concluding remarks

The valuer profession should, as a matter of urgency, develop appropriate, relevant guidelines to ensure that valuation rolls are accurate. Ratepayers should have the assurance of knowing that their property taxes are fair and equitable.

Municipalities should ensure that officials have the necessary competencies and skills in mass valuation techniques and statistical review methods. These steps will advance the MPRA closer to being a fair and equitable tax system.

MetGovis collaborates with the University of Pretoria's real estate, Department of Construction Economics, to provide independent statistical modelling testing for municipal valuation rolls. Please contact MetGovis to hear more about this service.

**MetGovis**  
**Tel: 033 343 2868**  
**[www.metgovis.co.za](http://www.metgovis.co.za)**

# PUT YOUR VALUATION ROLL ACCURACY TO THE TEST

Registered property owners are liable for the payment of property rates to their respective municipalities. Property rates are calculated on the market values determined by the municipal valuer responsible for preparing and maintaining the valuation roll. It is important that the roll is accurate and that the ratepayers perceive the roll as fair. Inaccuracies result in inequitable billing. MetGovis collaborates with the University of Pretoria's Real Estate Dept. of Construction Economics to provide independent statistical modelling testing for municipal valuation rolls. Please contact us to learn more.



$$p = Ke^{-rt} N(-d_1) - S_0 N(-d_2)$$

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$$s = \sqrt{\frac{1}{n-1} \sum_{i=1}^n u_i^2 - \frac{1}{(n-1)} \left( \sum_{i=1}^n u_i \right)^2}$$