

THE SOUTH AFRICAN VALUER



Northern Branch Country Seminar

Valuation in South Africa in 1959 and thence

South Africa's property trends

Professional standards a necessity for the MPRA

PROFESSIONAL STANDARDS ARE A NECESSITY FOR THE MPRA

Introduction

What is the emerging best practice for the preparation and maintenance of general valuation rolls? What lessons have been learned since the promulgation of the Municipal Property Rates Act in 2005? How do we get back to the basics to ensure quality valuation rolls and fair rating practices for the rate-payers? We need mass appraisal skills and a set of standards to ensure that the valuation rolls which determine our property rates are both accurate and equitable.

Legislative framework

The Local Government: Municipal Property Rates Act No 6 of 2004 (MPRA) heralded a new era for property rating for South Africa. The Western Cape was ahead of the pack because their previous Provincial Rating Ordinance provided for the market valuation of land and buildings. The rest of the country had to play 'catch up' as we got our processes and systems to reflect the market value of each property as a whole as opposed to the value of land as vacant and the depreciated replacement cost of buildings. The MPRA is a complicated piece of legislation. Strangely the MPRA did not prompt the handholding and capacity building that went with the implementation of the Local Government: Municipal Finance Management Act No 56 of 2003. It is a fact that most municipalities derive between 25-30% of their revenue from levying property rates. Over the past few years there have been some casualties: some municipalities have failed to comply, some a little, others a lot. Certain municipal valuers have performed 110% and others have not. What are we doing about this?

The new MPRA Amendments have added even more complexity to the mix. On top of the existing provisions municipalities will have to meet the prescriptive monitoring by their respective local government MECs. Municipal valuers will be required to submit monthly progress reports on the general valuation projects. These are all good solid steps to ensure that the procedural requirements are met. These provisions don't necessarily address the accuracy of the valuation rolls. It is these valuation rolls which municipalities monetise through levying property rates.

What steps are being taken to standardise the preparation and maintenance of valuation rolls of our municipalities? What qualifications are being put in place to develop mass appraisal skills for the valuer profession? What competencies are being developed within municipalities to provide reliable property data administration and appropriate contract management for the valuation service providers? What best practice is there and how is it being scaled up?

Valuation methodology for valuations for the purposes of municipal rating

S45 (1) of the MPRA requires that valuations must be carried out in accordance with generally recognised practices, methods and standards of valuation.

In following this process, the MPRA provides that valuers may use comparative, analytical and other systems or techniques, including aerial photography and computer assisted mass appraisal (CAMA) systems. Mass appraisal is an optional tool available to the valuer in order to achieve the requirements of best practice as stipulated in S45(1).

What is mass appraisal? It is the process of valuing a group of properties at a given date using common data, standardised procedures and statistical testing to ensure uniformity and equity in valuations.

If the municipal valuer uses mass appraisal as a technique to determine market value, then the mathematical models that are applied to the property data to calculate value should be available and open to scrutiny by both the client and the ratepayer.

In South Africa, too few registered valuers may claim competency in the successful application of mass appraisal techniques. Even today, value modelling is still very much the domain of statisticians and academics and less so of the practising valuer. Fewer still are capable of articulating the subject in a language that we can fully understand. As a result, audiences are quiet for fear of exposing their ignorance. The trend in South Africa has been for the CAMA technique to be applied to a combination of larger municipalities operating under tight project timeframes. We have, in many ways, put the cart before the horse. The rules

and standards of mass appraisal remain an off-shore reference point. Our reality is under-valuations and disparities within our valuation rolls. This impacts on the municipality's capacity to collect rates revenue.

The valuation profession must have mass appraisal training if our clients, the municipalities, are to benefit from this competency.

IAAO mass appraisal guidelines

The International Association of Assessing Officers (IAAO) published a guideline on mass appraisal and related tax policy in January 2014. This guideline provides a systematic overview of how property tax professionals can improve and standardise their operations. This is an international guideline pitched at first world professionals. In order for these guidelines to be relevant they need to be customised to meet our country's specific legislative framework and local capacity. In the UK, property tax is a payment for local services rather than a tax on property wealth. In Canada home-owners lodge their building plan applications online and ascribe the escalated value to their own properties. The checks and balances are that the state has the first option of purchase. Sweden relies on well designed tax payer declarations.

The IAAO does have a clear central message which we need to adhere to: valuation and taxation principles must be visible, transparent and include certain controls.

These processes are a distant reality here in South Africa.

The way forward

So where do we go from here? Ten years on from the promulgation of the MPRA the South African Institute of Valuers has initiated a project in collaboration with the International Property Tax Institute (IPTI) and the University of Pretoria. The purpose of the project is to develop a set of municipal valuation standards which are appropriate to the South African context. The second undertaking is for a relevant and appropriate curriculum to be developed to ensure that the municipal valuers using mass appraisal techniques do so from a qualified position. IPTI's Riël Franzsen, advises that discussions are under way to bring relevant executive training courses to South African valuers specifically to address this issue.

In most countries across the world, government is the property tax administrator and employs full time property appraisers to fulfil this function. In South Africa, local municipalities have the mandate to levy property rates or taxes. Only the metros and a few other municipalities enjoy the privilege of employing in-house valuation departments. The rest of the municipalities outsource the function to valuation service providers sourced from the private sector. It is on this cornerstone that the valuation profession must take up its responsibility to develop both the curriculum and standards against which their services to the

public sector may be evaluated and adjudicated. This is not the responsibility of government or the South African Council for Property Valuers Profession (SACPVP), the professional watchdog.

General valuation contract management

The procurement of the valuation service providers for municipalities is driven through supply chain management and open bid processes. The bid specification guidelines provided by the Department of Cooperative Governance and Traditional Affairs (CoGTA) are exhaustive. It is a parody that the bid specifications for a metro are equally applied to a municipality of fewer than 2 000 properties. The terms of reference are highly technical and the required submissions complicated. Most municipalities have limited evaluation and adjudication resources who do not necessarily understand the technical content of the bid submissions. The duration of the contracts is lengthy, covering both the initial general valuation, followed by three to four years of roll maintenance. Typically procurement processes are delayed. This results in the contract award being made at a very late stage and impacting upon the time frames for the important roll review phase of the projects. Supplementary rolls become the mechanism for ongoing repair. Damaged relationships between the municipality and its valuation service provider are an obvious casualty.

There is a further disconnect: once the municipality has procured a valuation service provider it generally doesn't have the resources nor capacity to manage these contracts. There is limited contract management to ensure that the deliverables and processes meet the stringent requirements detailed in the bid. Often neither the quality assurance plans for either property data nor valuation data are implemented. The bottom line is that the municipality just wants the certified valuation roll. Crashed time frames impact on the service provider's ability to deliver a quality product. Too often the value review phase is just skipped past and the municipality is presented with a final certified roll just before the statutory deadlines. Everyone breathes a huge sigh of relief, the roll is in.

Emerging best practice is for municipalities to appoint an independent project manager to support the municipality in both planning and managing these general valuation contracts. Municipalities should collaborate to share these project management resources.

The SA Institute of Valuers (SAIV) and the Institute of Municipal Financial Officers (IMFO), signed a Memorandum of Understanding in March 2014. The purpose was to develop a curriculum for municipal competencies which would complement the municipal valuer's scope of work. In fact the need was identified for these skills to embrace the broad real estate function within municipalities. This partnership between the private and public sector will result in a series of technical workshops being rolled out across the country to address upskilling municipal officials

who work in this space during 2015.

Proposed SA mass appraisal standards and a curriculum to address these

Valuations for municipal rating in South Africa is a specialised field within the valuation profession. All municipal valuers must perform to meet minimum standards for the preparation and maintenance of municipal valuation rolls. Unless, and until both the competencies and performance criteria for municipal valuers are defined and aligned, this field of work will remain cast aside by the rest of the profession and outsiders as a virtual free-for-all. Until this happens, it is no surprise that more and more opportunistic bid entities, often without any valuer competencies, are emerging – and being awarded - municipal valuation projects. It is a fact that many general valuation contracts are not monitored or managed by valuers with sufficient expertise or experience in this specialised field.

So let's un-pack the proposed MPRA standards and what they could mean for municipalities and municipal valuers in South Africa. There are obvious cost benefits through using a mass appraisal technique in preparing the larger general valuation rolls. The object is to produce equitable valuations at low cost under tight time constraints. It is the local municipality's mandate to plan, budget, organise and control the process. General valuations must be conducted at least every five years in terms of the MPRA Amendment Act, with a further option of a two-year extension if condoned by the MEC.

Critical lessons have been learned from the first two general valuation cycles since the promulgation of the MPRA. There is a growing body of knowledge around emerging best practice. The valuation profession has a responsibility to work together in packaging this knowledge to develop appropriate and relevant standards.

The proposed MPRA standards will be drafted and workshopped with the valuation profession. It is important to note that the MPRA standards will INCLUDE provision for mass appraisal standards. It is also notable that mass appraisals are an option and not mandatory for municipal valuations. The standards must be relevant and appropriate in terms of our legislative framework and the capacity constraints. There is no point in developing a fancy Mercedes when a robust Toyota is the best fit for the job at hand.

The valuation profession in South Africa is governed by the SACPV. All professional valuers must register with the Council which forms part of the Built Environment. The SACPV has the mandate to protect the public. The public makes up our ratepayers. The SACPV must ensure that municipal valuations prepared by professional valuers are fair and equitable. Appropriate standards must be developed by the profession. These will provide the benchmark which the SACPV may use to adjudi-

cate the performance of municipal valuers. The proposed MPRA guidelines are planned for rollout by June 2015.

Closing remarks

There is emerging best practice for the preparation and maintenance of general valuation rolls. This, together with the lessons learned since the promulgation of the Municipal Property Rates Act in 2005, needs to be assembled to improve the quality of service which we as professional valuers provide to our municipal clients. The development of appropriate MPRA standards will ensure that we get back to the basics of ensuring mechanisms for the presentation of quality valuation rolls and fair rating practices for the ratepayers. We need MPRA standards and an appropriate curriculum for our municipal valuers. These steps will go the distance towards ensuring that the valuation rolls which determine our property rates are both accurate and equitable, that municipalities can accurately budget for their rates income, thereby ensuring that they can deliver the services they are required to deliver in terms of their constitutional mandate. ■



By Janet Channing (BA MPhil NDPV) Managing Director of MetGovis, is a registered property valuer. She has a wealth of experience in municipal valuations and rating as well as project management within the local government. Her specific interest is to drive the development of the municipal real estate qualification to build capacity within the public sector. Janet was nominated by the SAIV KZN Branch Executive to head the portfolio committee on behalf of the SAIV to develop appropriate standards for the MPRA. Janet is also a RICS civil commercial mediator. Janet may be contacted on 033 343 2868 or email: janet@metgovis.co.za