Analysis of the Challenges Faced by Municipalities in Implementing Municipal Property Rates Act No 6 of 2004: The Case Study: Three Local Municipalities within the Dr Kaunda District Municipality in North-West Province, South Africa

by
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Abstract

The Municipal Property Rates Act No 6 of 2004 was promulgated and came into effect on 2 July 2005. To this end, all municipalities in the Republic of South Africa were required to conform with the Act. The Municipal Property Rates Act (MPRA) was contemplated as a means to assist municipalities to maximise revenue through property taxes. To achieve this, the process involved developing Rates By-laws, Rates Policy and General Valuation Roll so as to enable municipalities to bill all rateable properties as per the approved General Valuation roll. The Act in its entirety, therefore, sought to assist municipalities to expand their revenue bases in an endeavour to better provide basic services and perform their constitutionally mandated functions. The implementation of the MPRA required good planning and in-depth consideration in order to achieve the smooth transition from the old to the new rating arrangements. The newly developed valuation roll needed to undergo quality assurance before implementation. Similarly, the Rates Policy needed Council approval.

This study sets out to describe the revenue sources of municipalities and to understand the challenges faced by municipalities in implementing the MPRA so as to make recommendations that would enable the municipalities to realise the intentions of the MPRA. Literature review was performed, cases were analysed and a mixed methods approach was used. The mixed methods comprised in-depth qualitative interviews with key informants from the selected municipalities of the City of Matlosana, JB Marks and Maquassi Hills in Dr Kenneth Kaunda District as well as a self-administered structured survey distributed to all employees involved with the MPRA in all the three municipalities.

The literature review showed that addressing all implementation risks presented severe challenges to municipalities. Many of them experienced serious problems with the implementation of the new Act. For instance, the Knysna Municipality aborted its tender enquiry for a general valuation and instead replaced it with a call for proposals. Others faced legal challenges because they do not yet have rates policies in place or if they do, these are flawed. The case analysis showed that the legal challenges resulted in severe loss of revenue. Furthermore, municipalities were slow in understanding that the new MPRA meant that traditional valuation methods could no longer be used and that the Act introduced a difference in the approach to the rates paid by different

categories of ratepayers; for instance, those who owned vacant stands compared to those who owned the biggest houses in a suburb. It has taken long for many municipalities to completely understand these changes, incorporate them in their rolls and apply them in a manner consistent with the new act.

Given the results of this study, it is recommended that municipalities should make a concerted effort to learn from previous experience, especially from court cases whose outcomes resulted in revenue reduction. The municipalities' annual reports could include a section on "lesson learned" which can be addressed by the municipalities. Municipalities should implement a hybrid rate unit within their establishments, where they appoint a private and experienced municipal valuer to work with in-house valuers. The misunderstanding of the MPRA should be addressed through stakeholder outreach programmes, training and awareness, particularly in the agricultural and farming category. The education of the customers about the MPRA 2004 needs to be infused into the consultative process. This will be achieved if the municipal management plan well in advance and involve the public in everything they do, particularly on issues that involve the public's money or properties such as the MPRA. Education and experience are important variables for municipalities to consider in hiring officials. However, it should be noted that experience can be acquired on-the-job and that in-house training can bring less experienced personnel up to speed.

Opsomming

Die Wet op Munisipale Eiendomsbelasting Nr. 6 van 2004 is gepromulgeer en het op 2 Julie 2005 in werking getree. Om hierdie rede was alle munisipaliteite in die Republiek van Suid-Afrika verplig om daaraan te voldoen. Die Wet op Eiendomsbelasting (MPRA) is oorweeg as 'n manier om munisipaliteite te help om inkomste deur eiendomsbelasting te vermeerder. Om dit te bereik, het die proses die ontwikkeling van Bywette, Belastingbeleid, Algemene Waardasierol behels en om munisipaliteite in staat te stel om alle belasbare eiendomme volgens die goedgekeurde Algemene Waardasierol aan te slaan. Die wet in sy geheel, het dus gepoog om munisipaliteite te help om hul inkomstebasis uit te brei in 'n poging om basiese dienste beter te kan verskaf en hul grondwetlik gemagtigde funksies te kan verrig. Die implementering van die MPRA het goeie beplanning en diepgaande oorweging vereis om die effektiewe oorgang van die ou na die nuwe graderingsreëlings te bewerkstellig. Die nuut ontwikkelde waardasierolle is nodig om gehalteversekering voor die implementering daarvan te ondergaan. Net so het die belastingbeleid goedkeuring van die Raad benodig.

Hierdie studie het ten doel gehad om die inkomstebronne van munisipaliteite te kan beskryf en om die uitdagings wat hulle in die gesig gestaar het met die implementering van die MPRA te kan verstaan om aanbevelings te kan maak wat die munisipaliteite in staat sal stel om die bedoelings van die MPRA te kan verwesenlik. 'n Literatuuroorsig is uitgevoer, gevalle is ontleed en 'n gemengde metode-benadering is gebruik. Die gemengde metode het bestaan uit in-diepte gestruktureerde onderhoude met sleutelinformante van die geselekteerde munisipaliteite van die Stad Matlosana, JB Marks en Maquassi Hills in Dr Kenneth Kaunda Distrik, asook 'n selfvoltooide gestruktureerde opname wat aan alle werknemers betrokke by die MPRA, in al drie munisipaliteite gestuur is.

Die literêre oorsig het getoon dat die aanspreek van al hierdie implementeringsrisiko's ernstige uitdagings vir munisipaliteite inhou. Baie van hulle het ernstige probleme met die implementering van die nuwe wet ondervind. Die Knysna Munisipaliteit het byvoorbeeld sy tenderondersoek vir 'n algemene waardasie gestaak en dit eerder met 'n aanbod vervang. Ander het voor regsuitdagings te staan gekom omdat hulle nog nie tariefbeleide in plek gehad het nie, of as hulle dit het, is dit gebrekkig. Die saakontleding het getoon dat die regsuitdagings ernstige verlies aan inkomste tot gevolg gehad het.

Munisipaliteite was ook traag om te verstaan dat die nuwe MPRA beteken het dat tradisionele waardasiemetodes nie meer gebruik kan word nie en dat die Wet 'n verandering ingestel het in die benadering tot die tariewe wat deur verskillende kategorieë belastingbetalers betaal word; byvoorbeeld diegene wat leë erwe besit het in vergelyking met diegene wat die grootste huise in 'n voorstad besit het. Dit het lank geneem vir baie munisipaliteite om hierdie veranderinge heeltemal te verstaan, dit in hul rolle te inkorporeer en dit op 'n wyse wat ooreenstem met die nuwe wet, toe te pas.

Gegewe die resultate, word aanbeveel dat munisipaliteite 'n daadwerklike poging moet aanwend om uit vorige ondervinding te leer, veral uit daardie hofsake waarvan die uitkomste inkomstevermindering tot gevolg gehad het. Die munisipaliteite se jaarverslae kan 'n afdeling oor "lesse geleer" insluit wat deur die munisipaliteite aangespreek kan word. Munisipaliteite moet 'n hibride tipe tariefeenheid binne hul ondernemings implementeer, waar hulle 'n private en ervare munisipale waardeerder aanstel om met interne waardeerders te werk. Die misverstaan van die MPRA moet aangespreek word deur die uitreik/opleiding/bewusmaking van die belanghebbendes, veral in die landbou- en boerderykategorië. Die opvoeding van die klante omtrent die MPRA 2004 moet in die konsultasieproses ingewerk word. Dit sal bereik word as die munisipale bestuur vroegtydig beplan en die publiek by alles wat hulle doen betrek, veral oor kwessies wat die publiek se geld of eiendomme soos die MPRA insluit. Onderwys en ondervinding is belangrike eienskappe wat munisipaliteite in ag moet neem by die aanstelling van amptenare, maar daar moet kennis geneem word dat ondervinding in die werk opgedoen kan word en dat interne opleiding minder ervare personeel tot voordeel kan strek.

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CHAPTER 1: INTRODUCTION

1.1. Introduction

The importance of local governments to have sources of funds that pay for local services cannot be overemphasised. Slack (2010:) mentions that worldwide, at least to some extent, local governments rely on property tax as a source of funding for local services. Economists argue that property tax has advantages over other taxes because:

a. It is not easy to evade;
b. It is fair since it is based on the benefits received from local services; and
c. It can form the basis for the promotion of both accountability and local autonomy.

Despite these advantages, data from the Organisation for Economic Co-operation and Development (OECD), an intergovernmental economic organisation of thirty-six co-operating countries, indicates that revenues from property tax hardly ever exceed 3 percent of Gross Domestic Product in any country, often being much less than that (Slack, 2010).

Black, Calitz and Steenekamp (2012) classify taxes into income tax (wealth and profits), domestic tax on goods and services, international trade and transaction tax, property tax, income tax (payroll and workforce), and stamp duty and fees tax as shown in table 1.

Table 1 South Africa, distribution of taxes by source for 2010/11

SN	Tax category	Percentage contribution
1	Income tax (Wealth and profits)	59.1
2	Domestic tax on goods and services	37.8
3	International trade and transaction tax	4.1
4	Property tax	1.4
5	Income tax (payroll and workforce)	1.3
6	Stamp duty and fees	0.001

Source: Black, Calitz and Steenekamp (2012).

Black *et al*. (2012) demonstrate that during 2010/2011, property tax only constituted 1.4 percent of all taxes in South Africa. This is a very small fraction of national revenue derived from taxes. In contrast, in 2018, property tax constituted 18 percent of revenue for municipalities in South Africa (STATSSA, 2021).

The figures from OECD countries and South Africa seem to suggest that property tax is underutilised. Slack (2010:1) observes that:

> The under-utilisation of the property tax leads one to ask whether the property tax is such a good tax for local government and, if it is, why is it not used more heavily? Are there ways to increase property tax revenues?

In South Africa, most municipalities struggle to provide services such as electricity, water, sewer and refuse removal, yet based on Section 152 of the Constitution of the Republic of South Africa, 1996 and Section 73(1) of the Municipal System Act of 2003, these are the primary responsibilities of local government. One of the major factors contributing to the failure of the municipalities to deliver on their constitutional mandate is the lack of adequate financial resources. Moreover, municipalities raise revenue through property tax, amongst other means.

The South African government developed legislation called Local Government Municipal Property Rates Act 6 of 2004 (MPRA 2004) (RSA, 2004b). The objectives of the MPRA 2004 are to:

a. Make provision for fair and equitable valuation methods of properties;
b. Regulate the power of a municipality to impose rate on property;
c. Make provision for municipalities to implement a transparent and fair system of exemption;
d. Exclude certain properties from rating in the national interest;
e. Reduce rebate through their rating policies; and
f. Make provision for an objections and appeals process.

The aim of this legislation is to maximise the financial resources in the local government sphere through non exchange transaction levied from property rates. Although this is enshrined in the Constitution, which allows municipalities to impose rates on properties in their areas, subject to regulation in terms of national legislation, municipalities have generally struggled to implement the MPRA 2004. There are some challenges faced by municipalities in implementing the MPRA 2004 and realising the benefits thereof.

1.2 Motivation

This research is motivated by the fact that the MPRA 2004 is meant to assist municipalities to increase the revenue from property tax and therefore improve their financial viability. However, due to challenges, the municipalities are failing to do so. As a result, the level of service provision is not improving. The motivation of the study is to understand how the challenges affect the municipality revenue stream and to provide solutions thereof so that municipalities can realise their constitutional mandate of delivering services to their populations.

1.3 Research Approach

1.3.1 Problem statement

As a result of the challenges faced by the municipalities in the implementation of the MPRA 2004, they fail to realise the full benefits of the act. Some of the challenges have been identified by Du Plessis (2009), Managa (2012), Meakin (2004, 2005, 2006), Retief (2005), Steytler (2005, 2008, 2009, 2011) and Thersby (2005, 2008) as follows:

a. The Local Government Municipal Property Rates Bill became law in 2004 leading to the controversial changes in the calculation of municipal rates in March 2004;
b. Municipalities' lack of adequate skills in financial management. Managa (2012) argues that the staff in municipalities do not have the managerial and financial expertise to ensure that funds allocated for infrastructure development and service delivery are wisely spent according to the needs;
c. Failure of municipalities to appoint supplementary valuators to update their valuation rolls;
d. Irregularities in the supply chain management process during appointment of municipal valuers;
e. Municipal officials are unable to interpret and implement the MPRA 2004 in relation to calculation of sectional schemes title. This is demonstrated by the case of Nkomazi Municipality vs Leopard Creek Share Block Ltd Case No 77800/14; and
f. Delays in establishment of effective appeal boards by the Provincial Department of Local Government and Traditional Affairs.

g. Amakhosi or traditional authority owned properties that are exempted from rates pursuant to the provision of Section 3(3)(a) of the rating of State Property Act 79 of 1984. The Supreme Court of Appeal ruling in the Ingonyama Trust vs Ethekwini Municipality (149/2011) [2012] ZASCA 104 (1 June 2012) (RSA, 2012) demonstrated this.

The challenges highlighted above affect the ability of the municipalities to implement the MPRA 2004 and therefore to effectively raise revenue which can be used for effective provision of services. Regardless of these challenges, it is possible to increase the revenue contribution of property tax to municipal service provision. Halcombe (2006), for example, notes that in the United States of America, the contribution of property tax to municipal tax revenue is as high as 72 percent. It is therefore important to perform an in-depth analysis of the challenges currently experienced by the municipalities in implementing the MPRA 2004 with regards to how they affect the municipalities' revenue stream and consequently the execution of the municipalities mandated duties. This analysis should include potential solutions that can be implemented to improve the situation.

1.3.2 Research aim

The aim of the research is to gain an in-depth understanding of the challenges faced by the municipalities in implementing the MPRA 2004 and to identify potential solutions.

1.3.3 Research objectives

The research objectives are as follows:

a. To determine the major sources of revenue for the municipalities;
b. To determine how the proportional contribution to revenue by property tax has varied over time, especially after the introduction of the MPRA 2004;
c. To identify other challenges faced by the municipalities in implementing the MPRA 2004, besides those identified in literature;
d. To determine how the challenges faced by municipalities in the implementation of the MPRA 2004 affect the revenue stream of the municipalities; and
e. To identify potential solutions to alleviate the situation.

1.3.4 Research questions

The study is guided by the following research questions:

a. What are the major sources of revenue for the municipalities?
b. What is the proportional contribution to revenue by property tax and how has it varied over time, especially after the introduction of the MPRA 2004?
c. Besides the challenges identified in literature, are there other challenges faced by municipalities in the application and implementation of the MPRA 2004?
d. How do the challenges faced by municipalities in the application of the MPRA 2004 affect the revenue stream of the municipalities?
e. What are the potential solutions to alleviate the situation and how can the solutions be implemented?
f. What are the limitations of the municipalities (if any) in implementing the potential solutions?

1.4 Chapter Outline

Chapter 1: Introduction

This chapter introduces the research problem and provides background information on the study.

Chapter 2: Key Concepts in Property Rates Administration, Theoretical and Legislative Frameworks

The key concepts in property rate administration are provided and discussed. The theoretical and legislative frameworks are also presented.

Chapter 3: Methodology

The methodology used in the study is provided including the analytical methods.

Chapter 4: Analysis of Court Decisions Impacting Implementation of the MPRA

Court cases that demonstrate how the lack of understanding of MPRA impacts on municipal revenues are presented and discussed.

Chapter 5: Trends in Sources of Revenue and Property Tax in Kenneth Kaunda District

Graphical presentation is used to analyse the trends in property tax revenue in Kenneth Kaunda district.

Chapter 6: Results and Discussion

Thematic analysis is used to analyse the qualitative data and statistical analysis is used to analyse the quantitative data. The results are presented and discussed.

Chapter 7: Conclusion and Recommendations

Conclusions emanating from the data analysis are presented and recommendations that can ameliorate the situation are offered.

1.5 Conclusion

This chapter provided a background on the challenges faced by municipalities in implementing the MPRA 2004. The problem statement, the objectives and research questions were outlined. Furthermore, it was highlighted that analysts contend that it is possible for municipalities to increase municipal revenues through the implementation of the MPRA 2004. However, it is evident that several challenges preclude this, and this study sets out to understand and illuminate some of the challenges in search of potential solutions.

CHAPTER 2: KEY CONCEPTS IN PROPERTY RATES ADMINISTRATION, THEORETICAL AND LEGISLATIVE FRAMEWORKS

2.1 Introduction

In this chapter, literature related to the MPRA 2004 will be reviewed. Grinnell (1988) describes the need for performing a literature review as follows:

1. To explore and discuss the differences and similarities in the findings reported in other empirical studies on similar or the same subject;
2. To demonstrate that the researcher has a good understanding and command of the body of knowledge that exists on the subject under study;
3. To define and identify the key variables of the study;
4. To demonstrate the differences and similarities in the methodologies used in other empirical studies that address similar or the same subject; and
5. To provide a roadmap to interpret and discuss the results based on a theoretical framework.

From the literature review, the researcher observed that there is a dearth of empirical studies on the MPRA 2004 in general and on the challenges faced by municipalities in the implementation of the MPRA 2004 in particular. This means that most of the literature included in this study is not peer reviewed and is generally classified under grey literature. Therefore, this study will address the literature gap that exists regarding the MPRA 2004.

A theoretical framework underpins a research study. Although researchers conduct, write and publish studies individually, they are parts of existing theoretical frameworks. In this way, according to Mouton and Marais (1996), knowledge in an area of research logically becomes a part of previous studies that are interdependent. Mouton and Marais (1996) describe a theoretical framework as interrelated concepts that guide a research, informing the variables to be measured and any statistical relationships that may be uncovered by the study. The theoretical framework for the MPRA 2004 will be presented in this chapter.

Gomes *et al.* (2013) mention that local governments have the entitlement to raise revenue on property tax and on the services they provide. Legislative frameworks exist that guide municipalities in raising and managing revenues. The legislative framework of the MPRA 2004 is presented in this section.

2.2 Literature Review

2.2.1 A review of the challenges faced by municipalities in the implementation of the MPRA 2004

The MPRA 2004 came into effect on 2 July 2005 (Thersby, 2005) and this meant that all municipalities in South Africa needed to implement the new market value as the basis of property rates, in line with the requirement of the MPRA 2004. This is one of the major controversies surrounding the MPRA 2004 as it appears that most municipalities faced many challenges in its implementation as articulated by Du Plessis (2009), Managa (2012), Meakin (2004, 2005, 2006), Retief (2005), Steytler (2005, 2008, 2009, 2011) and Thersby (2005, 2008).

Implementing the MPRA 2004 was meant to have a positive impact on municipal revenues by increasing the number of rateable properties but it also presented the challenge that some properties which were not taxable in the old regime became taxable under the MPRA 2004. The MPRA 2004 aimed to increase the revenue base of municipalities in order to improve their services provision ability and thus better perform their constitutionally mandated functions (Thersby, 2005). However, the challenges precluded this realisation.

The implementation of the MPRA 2004 required good planning because of the potential that the transition from the old to the new Act could be costly and that it could be distressing to ratepayers and Council. As a result, considerations were required for the transition from the old to the new Act. Development and quality assurance of the new valuation rolls were key elements required before implementation (Franzsen, 2009). In addition, Ratief (2005) indicates that a rates policy also needed to be developed. Furthermore, Du Plessis (2009) argued that the rates policy needed to take cognisance of key objectives including, but not limited to, assistance to indigent households, schools, public benefit organisations, nature conservation areas, pensioners, disability grantees and child headed households.

According to Du Plessis (2009) there are risks associated with the development of valuation rolls that were to be used to implement the MPRA 2004. These include the following, among others:

a. The accuracy of the rolls will depend on the availability of sectional title properties owners' addresses which are questionable.
b. Both over and under estimation of the tariff may result from the total valuations.
c. Specific information required for the implementation of exemptions, reductions or rebates may not be available.
d. There are some properties which may not be included in the property roll because they may be in the process of transfer at the time of compiling the rolls.
e. Municipalities need to address objections but may not have sufficient resources to do so.

In light of the risks highlighted above, Du Plessis (2009) maintains that risk mitigation should form part of the plan. Meakin (2005) argues that there were serious problems with implementation of the MPRA 2004 and points out a number of teething troubles. For instance, Knysna Municipality, in Western Cape Province, had to abort its tender enquiry for a general valuation and instead replaced it with a call for proposals. Some of the teething troubles have resulted in some municipalities facing legal challenges as a result of not yet having rates policies in place. Those that were in place were flawed. The MPRA 2004 introduced some changes including that:

a. Differences in the approach to the rates paid by different categories of ratepayers, for instance, those who owned the biggest houses in a suburb compared to those who owned vacant stands.
b. Traditional valuation methods could no longer be used.

According to Meakin (2005) municipalities were slow to understand these changes, so they produced flawed rates policies. For example,

> Under the new system, if the average municipal value of all erven, including vacant sites, is R450 000 then everyone pays R4 500 pa. This increases the rates payable for

> the vacant stand by three and a half times and decreases the rates on the R650 000 unit by R2 000pa (Meakin, 2005:22)

Many municipalities have taken long to completely understand these changes, let alone incorporate them in their rolls and effectively incorporate them in a manner amenable with the guidelines of the MPRA 2004.

Meakin (2005) argues that the benefit tax could create new jobs for municipalities through proper application of the MPRA 2004, by penalising the owners of vacant land. Because the traditional valuation was expensive, wasteful and unreliable municipalities could also make savings by application of the new valuation methods. However, based on Meakin (2004:24) it is deduced that the municipalities lacked the capacity to develop the new reliable and cost saving techniques. Furthermore, the Department of Local Government presented municipalities with a big challenge when it put forward a step-by-step programme to implement the new valuation rolls by 1 July 2007. The challenge was presented by proposing the appointment of the valuers before the development of a rates policy.

This brief literature survey shows that there are many challenges faced in the implementation of the MPRA 2004. An important aspect to note is that most of this literature is not empirical, but grey literature. This study, therefore, seeks to contribute to the body of knowledge by providing empirical evidence on the challenges faced by municipalities in the implementation of the MPRA 2004.

2.3 Theoretical Framework

Three related theories, namely; public revenue theory, municipal finance theory and property tax theory constitute the theoretical framework of this study.

2.3.1 Public revenue theory

Governments have a need to raise funds so that they can contribute to the wellbeing of their citizens. According to Tideman and Plassmann (2015) the way to assess a public project is to look at its costs and benefits. For instance, if R0.50 is the cost of collecting R1 of public revenue then a public project which generates social benefits more than or equal to R1.5m which costs R1m should be deemed as worthwhile. There are five costs incurred during public revenue collection. The costs, described by Tideman and Plassmann (2015) are classified into: collection cost, direct burden, excess burden, compliance cost and demoralisation cost. Collection cost is the amount the government incurs in raising the revenue. This includes the salaries of officers who collect the revenue. Direct burden is the amount directly transferred to government from the citizens. Dead weight loss or excess burden refers to the loss of economic activity that may be worthwhile and would have occurred if the tax money had not been transferred from citizens to government. Compliance cost is the cost incurred by citizens when they pay tax, for instance the cost of completing the tax forms. Demoralisation cost is associated with the way citizens feel about the tax. Citizens may feel that the tax is too heavy on the poor or that the tax is generally unfair.

The analysis conducted by Wicksell and Lindahl, presented by Carroll (1986), regarding the problem of integrating public revenue and expenditure shows that the amount of public expenditure chosen, being a function of the amount of public revenue collected, is usually suboptimal. It is this problem that is being directly addressed by the MPRA 2004. However, because of the challenges faced in the implementation of the MPRA 2004, the municipalities are not able to choose the optimal level of public expenditure, to adequately provide services, because many of the challenges result in low revenue collection rates.

The costs, mentioned above, apply to the MPRA 2004. Some of these costs, for instance, demoralisation cost, are most likely the ones that cause some of the challenges faced by municipalities in implementing the MPRA 2004, thus causing fiscal deficits. Baharumshah, Jibrilla, Sirag, Ali and Muhammad (2016) suggest that unnecessary fiscal deficit can be avoided by understanding the trend of revenue and expenditure from government. In addition, Baharumshah *et al*. (2016) maintain that the behaviour of government expenditure is a good indicator of the health of public revenue.

2.3.2 Municipal finance theory

Derbyshire (2007) observes deterioration in the management of revenues of the South African municipalities. The collection of revenues for services provided by the municipality is one of the challenges that contribute to this deterioration. Medium term grants to finance capital projects are used as a short-term solution to this problem.

However, the sustainability of this solution is questionable. Municipalities can be self-reliant in terms of financing their expenditure if they effectively use their revenue sources. A description of the sources of revenue for municipalities is provided by Bashkim, Skender and Ejup (2011). These include (but are not limited to):

a. Tariffs: These are charges for services provided by municipalities, for instance, electricity and water.
b. Property tax: Municipalities use property tax as a means of raising revenue (Slack, 2011). Property tax is levied on residential property, property used for industrial or commercial purposes and agricultural property.
c. Fees: These can be levied on business permit and business licence fee (e.g., retail sales, hotel and restaurant services), fees for advertising on municipal property, fees on construction or demolition of buildings, municipal administrative fee, motor vehicles licence fees, parking fees, fishing and hunting, and recreational fees.
d. Other fees: Include traffic fines and fines levied for offenses for not complying with municipal regulations and charges for the issue of official documents (like marriage certificates). In South Africa, other sources include grant transfers, donations and loans for capital projects.

Slack (2011) argues that property tax can be a major contributor to the revenue base for municipalities.

2.3.3 Property tax theory

Property tax is a tax on wealth. It is not only used by municipalities to raise revenue. In other countries like the United States of America, property tax influences the location of industry. Unlike in South Africa, in the United States of America, property tax administration varies from state to state (Hyman, 2008). A good review of property tax theory and practice is provided by (Slack, 2011). Nearly all governments worldwide use property tax as a source of funds for payment of locally provided services. Because of its fairness and its ability to generate benefits for citizens through services, economists argue that the property tax serves well the interests of government (Slack, 2011).

However, property tax is underutilised, as stated earlier. The answer to the underutilisation might lie in the challenges of implementing the property tax law. Based on property tax theory, there are two forms of property tax, namely; non-residential and residential property tax. Services like good schools and good roads tend to be funded by property tax which makes residents to better understand them. When the provision of such non-excludable services is done properly, this may increase the value of residential properties. This benefit-cost link is easy to establish (Slack, 2011). Non-residential property tax includes taxes on properties used for commercial purposes like retail outlets, offices, hotels, restaurants, banks and farms.

Property tax is considered to be a good tax for local governments, mainly because of the connection between the types of services funded at the local level and the benefit to property values. Yet property tax revenues rarely account for more than 3 percent of Gross Domestic Product (GDP) in any country (Slack, 2011). To the extent that people understand that their property taxes are being used to pay for local services, there is a link between the benefits and costs of local services that encourages them to make efficient fiscal decisions (Oates, 2010).

Property tax also finances services that are highly visible, such as roads, garbage collection and neighbourhood parks. Studies show that residents are more willing to pay for local services when they rate their government and service provision highly (Simonsen and Robbins, 2003).

Reliance on property tax as a source of local government revenue does not seem to vary according to whether the country is federal or unitary. Property taxes do, however, vary across jurisdictions according to the expenditure responsibilities assigned to local governments and the other revenues available to them, such as other taxes, intergovernmental transfers, and user fees (Slack, 2011).

It is argued that despite how well land and property taxes are administered, they affect not only how much revenue is collected, but also the equity and efficiency of the tax. Three key steps are involved in the process of taxing real property (Slack, 2011):

i. Identification of the properties being taxed;
ii. Preparation of a tax roll (which contains a description of the property and the amount of assessment) and responding to assessment appeals; and

iii. Issuing tax bills, collecting taxes and dealing with arrears.

Notwithstanding the efficiency arguments against tax exporting, “politicians have a strong political bias toward exporting tax burdens” (Brunori, 2003:43). Political leaders “prefer to meet constituent service demands without incurring the risk of placing the burden of paying for those services on those constituents” (Brunori, 2003:38).

2.4 Legislative Framework

Several pieces of legislation guide the MPRA 2004 and the litigation associated with it. These are briefly reviewed.

2.4.1 The Constitution of the Republic of South Africa, 1996

Section 152 of the Constitution of the Republic of South Africa, 1996 specifically mentions that municipalities must provide services to communities in a sustainable manner (RSA, 2014). The provision of services is partly financed by funds charged by the application of the MPRA 2004.

2.4.2 Municipal Systems Act, No 32 of 2000

Chapter 2 of the Municipal Systems Act 32 of 2000 (RSA, 2000) states that municipalities have legislative and executive authority in their areas of jurisdiction. The process of exercising the executive and legislative authority needs to be within the constitutional system of co-operative government as outlined in Section 41 of the Constitution. The Municipal Systems Act also states that the council of a municipality has the right to govern the affairs of the local community. Part of the governance includes financing the affairs of the municipality through charging rates on property, fees for services provided and imposing surcharges on fees, and to the extent allowed for by national legislation, charge other taxes, levies and duties.

Under the Municipal Systems Act, the municipality is responsible for using the resources of the municipality in the best interest of the local community and to provide, without favour or prejudice, accountable and democratic government which encourages the involvement of the local community. The municipality must ensure that services are provided to the local community in an environmentally and financially sustainable manner. The municipality must consult the local community about the quality and level, range and impact of services provided by the municipality, through another service provider or directly by the municipality. Community members must enjoy equitable access to the municipal services to which they are entitled. It is such provisions of the Municipal Systems Act that tie it directly to the MPRA 2004.

2.4.3 Municipal Finance Management Act, No 56 of 2003

The Municipal Finance Management Act 56 of 2003 aspires to ensure the sound management and sustainability of the fiscal and financial affairs of municipalities (RSA, 2004). Twenty standards are established in order to foster transparency, accountability and establish clear lines of responsibility in the management of fiscal and financial affairs of municipalities and municipal entities. This includes the management of municipal expenditures, revenues, assets and liabilities and the handling of all municipal financial affairs. The Act also provides guidelines for budgetary and financial planning processes. It also provides guidelines for relevant organs of state to co-ordinate those processes. The resolution and borrowing of municipal finances is guided by the Municipal Finance Management Act. This act applies to all municipalities and municipal entities.

The Municipal Finance Management Act provides guidelines on how municipalities should open bank accounts, how to manage the bank accounts, credit control and the management of assets and liabilities in order to avoid financial mismanagement. However, the realisation of benefits from such good legislation which could be effectively used by municipalities is sometimes precluded by corruption (Managa, 2012).

2.4.4 Municipal Property Rates Act No 6, 2004

Municipalities sometimes provide services that are non-excludable in nature, for example, roads. Such services are largely funded through property tax (Fourie and Opperman, 2007). The Republic of South Africa’s Constitution allows municipalities to levy property rates as a means of revenue generation (RSA, 2014). By interpreting and applying the MPRA 2004 and other Acts which regulate the revenue raising powers, municipalities use by-laws, resolutions and policies as legal instruments for raising revenue. Each of these instruments is meant to perform a specific function within the legislative framework (Steytler, 2011). The MPRA 2004 is the major legislative instrument that the municipalities use to raise revenue through property taxation (RSA, 2004).

2.4.5 Property Practitioners Act, No 22 of 2019

Momoniat (2001:2) outlines several shortcomings of local government finance in South Africa. Some of the most relevant issues include increasing reliance of municipalities on transfers from national government to fund activities due to a lack of own-revenue effort and a lack of commitment to leverage private funding.

The Property Practitioners Act is a new piece of legislation which will replace the Estate Agency Affairs Act of 1976. Its main purpose is to establish the Property Practitioner Regulatory Authority, which will replace the Estate Agency Affairs Board; to regulate the affairs of all property practitioners; to allow for transformation in the property sector and to provide for consumer protection. Although the Act has been signed into law, it has not commenced yet. The Act will commence on a date yet to be decided upon. This might happen in 2020 (RSA, 2019).

Furthermore, this piece of legislation provides mechanism and legal framework within which the dignity of previously disadvantaged people will be restored. It brings about enhancement of economic activities that support revenue, the life blood of municipalities, through growth and development. Schoeman (2006) argues that municipal fiscal sustainability in South Africa is under pressure. Therefore, it requires enabling legislations to address the imbalances of the past.

2.4.6 Division of Revenue Act of 2020

This legislation is aimed at providing a framework within which equitable division of revenue raised nationally will be effected among the national, provincial and local spheres of government (RSA, 2020). The determination of each province's equitable share and allocations to provinces, local government and municipalities from national government's equitable share and the responsibilities of all three spheres pursuant to such division and allocations; and to provide for matters connected therewith is the purview of this Act. This is so because Section 214 (1) of the Constitution requires an Act of Parliament to provide for:

a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;
b) the determination of each province's equitable share of the provincial share of that revenue; and
c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue and any conditions on which those allocations may be made.

2.4.7 Money Bills Procedure and Related Matters Amendment Act, No 9 of 2009

The Money Bills Procedure and Related Matters Act 9 of 2009 is the Bill that aims to clarify instruments used in the application of the Act in an endeavour to correct the powers and functions of the committees dealing with matters related to the Act and also to clarify and amend the procedure, resultant reporting and periods involved in the amendment of money Bills and division of revenue Bills and related fiscal instruments and lastly to repeal certain provisions aimed at establishing the Parliamentary Budget Office as a juristic person and to strengthen the accountability model of the Parliamentary Budget Office; and to provide for matters connected therewith.

2.4.8 Intergovernmental Fiscal Relations Act, No 97 of 1997

This Act sets out the process for the division of nationally raised revenues between the three spheres of government. It establishes the Budget Forum, in which local government issues are discusses as part of the national budget process.

This Act aims to promote co-operation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters; to prescribe a process for the determination of an equitable sharing and allocation of revenue raised nationally; and to provide for matters in connection therewith.

One of the key aims and objectives of the Intergovernmental Fiscal Relations Act is to streamline the process for the sharing of revenue raised nationally among the national, provincial and local spheres of government in terms of Section 214(1)(a), the division of the provincial share among the provinces in terms of Section 214(1)(b), and any allocation of money to the provincial governments, local government and municipalities in terms of Section 214(1)(c) of the Constitution, must be effected in accordance with this part.

Transfers from the national government to provincial governments have therefore become a major source for financing the expenditure of local government (Hendriks, 2014:1). There is a need to re-examine the different revenue streams available to municipalities and to ensure that the division of the local government equitable share and conditional grants targets the poorest municipalities. To move forward with a policy on a differentiated approach requires accurate information on municipalities (Hendriks, 2014:2). Local government's financial viability should refer to the availability, sustainability of income sources and the impact of the external domains or environment within which the municipality operates (Burchell and Listokin, 2012:154). These are municipal own revenues which are raised by the locality itself that consist of taxes and charges, and intergovernmental transfers, contributed by both the state and federal governments (Mosha, 2010:5).

According to Loots (2004:1) since 1998, a share of government revenue collected nationally is distributed equitably to all spheres of government from national, provincial to local government. Municipalities generate revenue from trading services and property rates levied. Municipalities must do more to exploit the potential of their own revenue sources; this means that every effort must be made to ensure that all properties are correctly charged for property rates and for all municipal services rendered to the property.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the research methodology followed in this study is described. Firstly, cases that demonstrate the challenges faced by municipalities in implementing the MPRA 2004 are presented and analysed. Secondly, a detailed analysis of the trends in revenue in Dr Kenneth Kaunda District Local Municipalities: The City of Matlosana, JB Marks and Maquassi Hills local municipalities is carried out from secondary data. The contribution of property tax to municipal revenue is also analysed. Thirdly, primary data is analysed to provide an understanding of the challenges that are faced by municipalities in implementing the MPRA 2004. The results of the three analyses are presented in three separate chapters. Ensuing is the description of the methodology applied to the primary data.

3.2 Research paradigm, method and design

3.2.1. Research paradigm

According to Creswell (2009) and Gringeri, Barusch and Cambron (2013) paradigms are worldviews. Guba and Lincoln (1994) and Heron and Reason (1996) explain that paradigms are basic beliefs about the nature of reality, the way we may get to know this reality and the way knowledge is produced. According to Makombe (2017) there are empirical paradigms; namely positivism, post positivism and anti-positivism, and normative paradigms; namely interpretivism, social constructivism, criticalism (critical theory) and pragmatism. The paradigm adopted in this study is pragmatism. Pragmatism is the applicable paradigm when the two research methods of qualitative and quantitative are mixed in one study (Makombe, 2017).

3.2.2 Research method

Leedy (1997) mentions that quantitative study is based on theory and variables, measured in quantitative terms, that is with numbers. The data in quantitative studies is analysed with statistical procedures to determine whether generalisations of the theory hold true. In contrast, qualitative study is a research process that aims to understand social problems by building a complex but holistic picture, formed with words. The words constitute the detailed views of the study subjects. Qualitative study is usually conducted in natural settings. The data are behavioural and verbal as compared to numerical and statistical data in quantitative research. Tuli (2010) describes the characteristics of qualitative and quantitative research methods. The third research method is called mixed method, where qualitative and quantitative methods are mixed. Doyle, Brady and Byrne (2009) offer a description of the ways in which the qualitative and quantitative methods are mixed. For the purpose of this research, both qualitative and quantitative methods were used. This is a suitable method for this study because mixed methods allow for triangulation. Similarly, Ajam (2016) also applied triangulation.

3.2.3 Research design

According to Makombe (2017:3367), there are research designs associated with the empirical paradigms; examples of which are experimental, descriptive, case control, causal, cohort and cross-section and there are research designs associated with normative paradigms; examples of which are descriptive, narrative, phenomenology, exploratory and ethnography. In this study, the research designs used are the descriptive, narrative and case study designs. Case studies will be used to demonstrate the impact of the challenges of implementing the MPRA 2004.

3.2.4 Study area

The study is based in the Kenneth Kaunda District of the North-West Province, depicted in figure1. In the Kenneth Kaunda District, there are three local municipalities, namely; the City of Matlosana, JB Marks and Maquassi Hills, and a district municipality. The district consists of urban areas, rural towns, small settlements, villages and rural areas. The urban areas are Klerksdorp and Potchefstroom. Most of the districts' economic activities, population, social and engineering infrastructure are concentrated within the urban areas which are regarded as secondary cities, in the South African context. The major activities in the small settlements, villages and rural areas are agriculture, tourism and mining (RSA, 2019b).

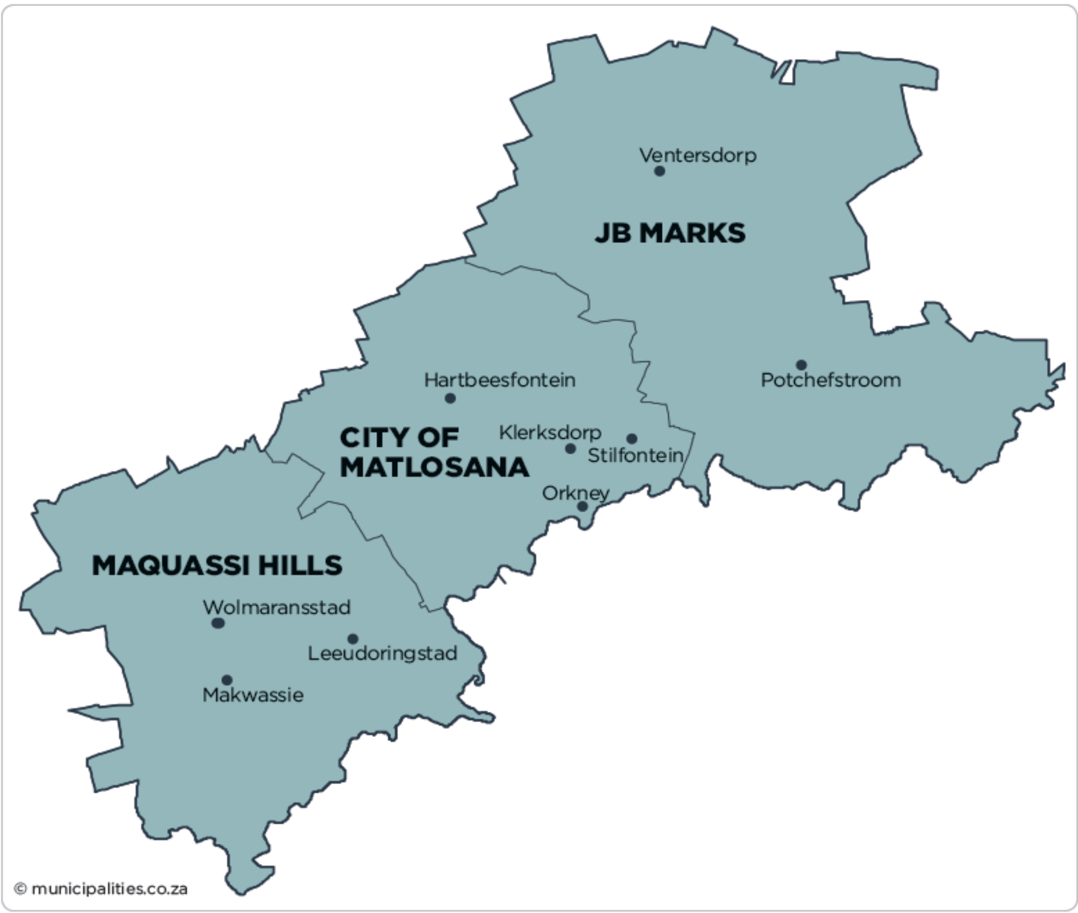

Figure 1. Map of Kenneth Kaunda District (RSA, 2019a)

3.2.5 Population

The population of the study comprises the three local municipalities in Dr Kenneth Kaunda District which are responsible for collecting property taxes.

3.2.6 Sample, sampling methods and sample size

The process of choosing participants who will be involved in a research study is called sampling. Whereas statistical methods are used to determine the sample size in quantitative research, it is quite common for qualitative researchers to use purposive sampling (Nastasi, Moore and Varjas, 2004). In quantitative research, concepts like statistical representation are used to determine sample size. In qualitative research, Glaser and Strauss (1967) suggest the use of saturation to guide the choice of sample size. When an additional respondent to the sample does not add more information or insights to the concept under study, saturation is achieved. In addition, the research design used also determines the sample size. Creswell (1998) recommends a sample of five to twenty-five participants for phenomenological studies, while Morse (1994) recommends about six respondents. For grounded theory research design, Morse (1994) recommends thirty to fifty interviews while Creswell (1998) suggests twenty to thirty participants. Morse (1994) suggests about thirty to fifty respondents for ethnographic research design.

Based on these observations, the sample size for this study consisted of nine participants. The purposively selected sample comprised employees who are most familiar with the application of the MPRA 2004 by the municipality. From each of the three municipalities, the Municipal Manager, the Chief Financial Officer and the manager responsible for revenue management were purposively selected, reaching a total of nine participants. Multiple level interview, through telephone or a video conferencing platform, was utilised and interviews were recorded with the permission of the respondents. This was in response to COVID-19 social distance regulations which were enforced at the time of conducting this study.

In respect of the quantitative sample, the officers who understand the MPRA, namely; Rates Clerks, Rates Accountants, Directors, Municipal Managers, Chief Financial Officers, Municipal Valuers and members of the municipal council were included. About fifteen officers were selected from each municipality, totalling to a target sample of forty-five.

3.2.7 Data collection

Two types of data are collected in research, namely; secondary and primary data. Secondary data is existing data while primary data is original data collected in the process of conducting research (Kothari, 2007). Primary data were collected using semi-structured interview questions. Data were collected on the challenges faced by the local municipalities in implementing the MPRA 2004. For each challenge, data were collected on its impact on municipal revenues, the potential solutions for the challenge and why the solutions were not implemented currently. A voice recorder was used for data collection and the interviews were transcribed in preparation for analysis. A structured questionnaire was used to collect the quantitative data.

3.2.8 Data analysis

In this study, thematic analysis was used to analyse the qualitative data. The data were coded and classified into themes. Themes can be identified based on the research questions (Neuman, 2014). In this study, NVIVO 9, a qualitative data analysis computer software, was used to identify the themes in the qualitative data. Themes can capture the meaning of the data in relation to research questions. Patterns are identified from the data and the patterns are classified into categories referred to as themes (Braun and Clarke, 2006). Summary tables, graphs and statistical analyses were used to analyse the quantitative data. The secondary data were analysed using tabular and graphical presentations.

3.3 Conclusion

Mainly, this chapter described the procedures followed for collecting and analysing the primary data. Primary data were collected using a semi-structured interview guide and a structured questionnaire, constituting a mixed method approach.

CHAPTER 4: ANALYSIS OF COURT DECISIONS IMPACTING ON THE IMPLEMENTATION OF THE MPRA

4.1 Introduction

In this chapter, cases that clearly demonstrate some of the challenges faced by municipalities in implementing the MPRA 2004 are presented and analysed. For each case, background information is provided, the dispute involved in the case is discussed, the court outcome is provided and a brief analysis of the challenge in implementing the MPRA 2004 and revenue impact (if any) concludes each case.

4.2 CASE NUMBER 1: *Leopard Greek Share Block LTD Golf Estate v Nkomazi Local Municipality (77800/14). The Supreme Court of Appeal of South Africa Judgment RSA (2012*)

4.2.1 Background

The case under discussion is between Leopard Greek Share Block Ltd Golf Estate and Nkomazi Local Municipality. This court case came about when Nkomazi Local Municipality developed a new valuation roll (2014-2018) which valued the Golf Estate at R1,3 billion. The valuation would result in the Golf Estate being expected to pay annual rates and taxes of R 8,8 million.

4.2.2 Discussion of the dispute

The dispute came about when Leopard Greek differed with the Nkomazi Local Municipality on the estimated value of their property which according to their private valuer is valued at R850 million. This was R153 million less than the Municipality General Valuation Roll Value of R1,3 billion and therefore the expected annual rates and taxes would be about R5,6 million instead of R8.8 million as estimated by the municipality.

4.2.3 Court Outcome

The parties settled the matter out of court through the Provincial Appeal Committee Board ruling. The Golf Estate is categorised as residential property and will be valued at R750 million for General Valuation Roll (2014-2018). Therefore, the Leopard Estate is paying R 4,2 million per annum in rates and taxes.

4.2.4 Case analysis

This case shows a lack of understanding of the interpretation of the MPRA 2004 by ratepayers which happens very often during the introduction of a new valuation roll. The municipality, on the other hand, loses a lot of revenue due to withholding of rates and taxes during dispute resolution. The out of court settlement means that an out of court compromise agreement amount was agreed upon.

4.3 CASE NUMBER 2: *Smit v City of Johannesburg Metropolitan Municipality (02181/2016) [2017] ZAGPJHC 386 (28 November 2017)*

4.3.1 Background

Mrs Smit has a residential property at No 48 Westdene Township in Johannesburg in accordance with the City of Johannesburg General Valuation Roll. However, the City of Johannesburg alleges that Mrs Smit used the property as student accommodation without rezoning or following the necessary due processes.

4.3.2 Discussion of the disputes

The dispute is about Mrs Smit requesting the municipality to use the correct category or classification in levying her rates in line with the Municipal General Valuation roll 2014-2018. It is alleged that the Municipality billed Mrs Smit R1 564.80 per month since June 2014 in property taxes instead of R293.40, as she was being billed on an illegal use tariff instead of a residential tariff.

4.3.3 Court outcome

The municipality was ordered to rectify the account number 404238168 to reflect that the property rates levied against, based on an illegal use category in the period 1 June 2014, have been replaced with property rates based on the residential category. This would mean that Mrs Smit will get credit from incorrect billing through utilisation of incorrect rates category of an illegal use tariff instead of a residential tariff.

4.3.4 Case analysis

This case demonstrates a lack of knowledge and understanding of the MPRA 2004 by municipal officials. The municipal customers often raise questions about the poor implementation of the MPRA 2004, resulting in loss of revenue by the municipality.

4.4 CASE NUMBER 3: *Breakers Share Block Limited v Ethekwini Municipality (804/2015) [2016] ZASCA 117 (14 September 2016)*

4.4.1 Background

This case is about leases of an immovable property described as Erf 1066 of Umhlanga Rocks, from the respondent, the Ethekwini Municipality.

4.4.2 Discussion of the dispute

Breakers Shares Block Limited erected an apartment block on the property, comprising apartments used in conjunction with a conventional share block scheme and others in terms of a time share scheme. In terms of the long-term lease, the Breakers Share Block Limited is obliged to pay the Municipality the rates levied, in respect of the property, in terms of the Local Government: Municipal Property Rates Act 6 of 2004 (the Rates Act).

The dispute arose when the Municipality determined that for the purpose of calculating the rates payable on the property by the Breakers Share Block Limited, it should fall within the category.

4.4.3 Court outcome

The court decided the matter on the basis of a point in limina raised by the respondent, namely:

That the Breakers Share Block Limited had failed to exhaust the internal remedies available to it in terms of the Municipal Property Rates Act No 6 of 2006, before launching the application. The municipality alleged that the Breakers Share Block Limited was entitled to lodge an objection in terms of s 50(1)*(c)* of the Rates Act with the Municipal Manager of the respondent, against the changed categorisation of the property. If dissatisfied with the outcome of this procedure, the appellant was entitled to appeal to the Valuation Appeals Board, in terms of s 54 of the Rates Act.

The point that the municipality did not provide a notice is unfounded and the notice is in line with Local Government Municipal Property Rates Act 6 of 2004: Sections 49 and 78(2): adequacy of notice of supplementary valuation: notice substantively compliant with Act.

4.4.4 Case analysis

This case demonstrates a lack of knowledge and understanding of MPRA 2004 by some of the municipal officials. Municipal customers often raise questions about poor implementation of the MPRA 2004, resulting in revenue loss by the municipality.

4.5 CASE NUMBER 4: *City of Tshwane Metropolitan Municipality v Lombardy Development (Pty) Ltd & others (724/2017) [2018] ZASCA 77 (31 May 2018)*

4.5.1 Background

This case involves failure by the municipality to comply with Section 49 of the Municipal Property Rates Act No 6 of 2004 by omission to compile supplementary valuation roll which reflects the correct value of the applicant from former Ekhungwini Municipality, when incorporated into the City of Tshwane in 2012/2013 financial year.

4.5.2 Discussion of the dispute

The dispute arose when the respondents (Lombardy Development and Others) began to receive invoices from the city reflecting massive increases in their liability for rates. Moreover, those drastic increases were retrospectively imposed to July 2011. By way of example: in May 2012, the property belonging to the Bezuidenhouts (the seventh and eighth respondents), which was categorised as 'residential', was reflected as having a market value of R1,2 million, being the same value that had been reflected on the corresponding Ekhungwini invoices. For the whole of the 2011-12 financial year, the rates payable by the Bezuidenhouts was R753.11 per month after rebates were taken into account, which compared favourably with the R600 levied by Kungwini during the previous financial year. For the months of July and August 2012, being the first two months of the 2012-13 financial year, the Bezuidenhouts were invoiced an amount of R843.43 monthly, being the new increased rate of 1,354 c/R then applicable to a property categorised as residential. However, in September 2012, the Bezuidenhouts received an invoice from the city, which reflected a monthly charge of R6014 for rates. That represented an increase of about 700% on the amount previously charged. The experience of the Bezuidenhouts was not unique to them but repeated throughout the Lombardy Estate Development and, indeed, the former Kungwini residents.

4.5.3 Court outcome

The court outcome was as follows:

That the Municipality's rates policy with effective date 1 July 2011, as amended (pp784-799 of the record), is declared invalid and set aside.

That the Municipality is prohibited from further implementing any of the decisions mentioned by the court in this order to the extent that they have been set aside.

4.5.4. Case analysis

This case demonstrates a lack of knowledge and understanding of MPRA 2004 by some municipal officials. Municipal customers do often raise questions about poor implementation of the MPRA 2004 which results in the municipality losing revenue.

4.6 CASE NUMBER 5: *Jacobus Johannes Liebenberg N.O. and 84 others v Bergrivier Municipality: Case Cct 104/12 [2013] Zacc 16*

4.6.1 Background

This is a constitutional case matter concerning eight-five landowners (applicants) who farm within the area of jurisdiction of the Bergrivier Municipality. The applicants are all members of the Bergrivier Belastingbetalers-vereniging (BBV), a ratepayers' association. The issue of concern is the validity of certain municipal rates, which the applicants have refused to pay for a period of eight years. Prior to the adoption of the interim Constitution, rural landowners were not required to pay municipal rates.

4.6.2 Discussion of the dispute

The dispute arose from imposing or levying municipal rates in the rural area relying on an old order legislation during transition to democracy. The new dispensation, built up through a variety of constitutionally mandated legislative instruments, established a framework ensuring that all land, including the rural tracts belonging to the applicants, became subject to the authority of municipalities to impose rates on property.

The ratepayers or landowners also challenged the collection of eight outstanding disputed levies amount. The landowners opposed the application on various grounds, including legality and non-compliance with procedural requirements of a number of statutes.

4.6.3 Court outcome

The majority judgement for this constitutional court case agree with the municipality for levying rates to its customers, including applicants.

4.6.4 Case analysis

This case demonstrates a lack of knowledge and understanding of the MPRA 2004 by some of the municipal customers. In this case, they have relied on the old pieces of legislation and took the municipality to court. Municipal customers often raise questions and dissatisfaction when municipality management develop new valuation roll in the implementation of the MPRA 2004. The municipality loses revenue due to the withholding of rates and taxes by ratepayers and landowners.

4.7 Conclusion

This sample of cases demonstrates that there is a lack of understanding of the MPRA 2004 on both sides, namely; municipal customers and municipal officials. It is especially important for this lack of understanding to be eliminated on the municipal officials' side because they have a responsibility to educate the customers and are also expected to respond to questions raised by customers. It is also important, in the case of loss of revenue by the municipality, to estimate the loss which is currently not done. This information can be used to motivate for training of municipal staff and to conduct public awareness campaigns.

CHAPTER 5: TRENDS IN SOURCES OF REVENUE AND PROPERTY TAX IN KENNETH KAUNDA DISTRICT

5.1 Introduction

In this chapter, secondary information on trends in municipal sources of revenue is analysed. Municipal sources of revenue comprise equitable shares, capital grant, services (electricity, water and refuse collection) and property rates. Property rates as a proportion of total revenue in the three local municipalities in Kenneth Kaunda District, before and after the introduction of the MPRA, is analysed and a comparison to provincial trends is carried out. The various factors influencing property rates revenue yields (revenue drivers) in the three municipalities are also identified. Sources of property tax revenue for the municipality include property taxes on residential, government and business properties and since 2004, as a result of the introduction of the MPRA 2004, agricultural properties are also included. Graphs are used to organise and report the secondary data.

5.2 Trends in Sources of Revenue for Dr Kenneth Kaunda District: 2010 to 2021

In 2020, the total revenue in Dr Kenneth Kaunda District amounted to R3,193,815,200. This is approximately 66 percent increase from R1,919,286,521 in 2010. Figure 2 shows an increasing trend in total revenue from 2010 to 2020. Figure 3 depicts trends in the sources of revenue for Dr Kenneth Kaunda District. In addition, Figure 3 indicates that although equitable shares, capital grant and property rates show a slightly increasing trend, the most significant increase was from services (electricity, water and refuse collection). Revenue from services increased from R987,156,866 in 2010 to 1,703,390,000 in 2020, an increase of about 73 percent. In 2013, there were large variations in different directions for all the revenue sources except for property tax. While revenue from services decreased, the revenue from capital grant and equitable shares increased.

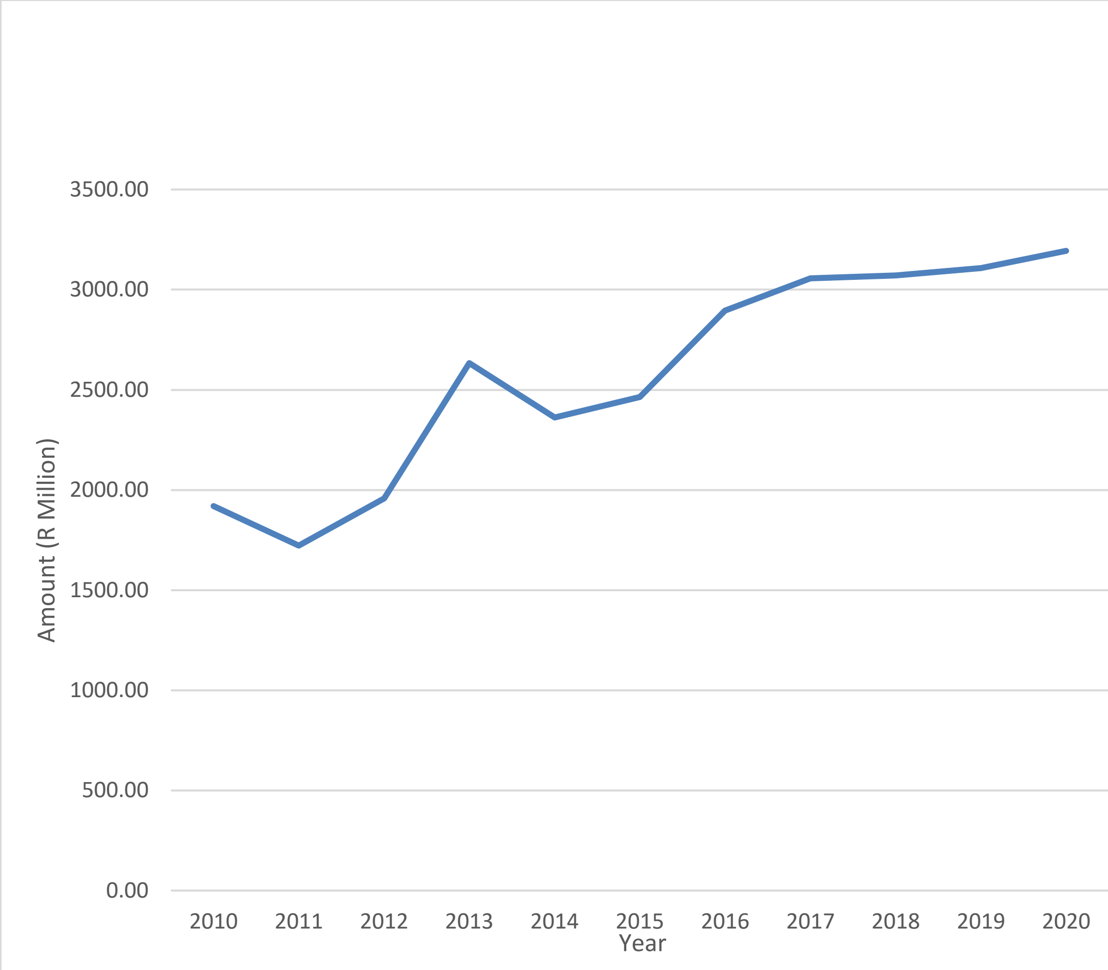

Figure 2. Trends in total revenue for Dr Kenneth Kaunda District:2010 to 2021(Municipal Electronic Database Archives)

The reason for the decline in revenue from services is due to poor revenue collection from customers in billing. This means that municipal management were unable to develop good strategies to encourage customers to pay for services. The variation in capital grants and equitable share grants emanates from their provision by National Treasury (equitable share grant) and National CoGTA (capital grant).

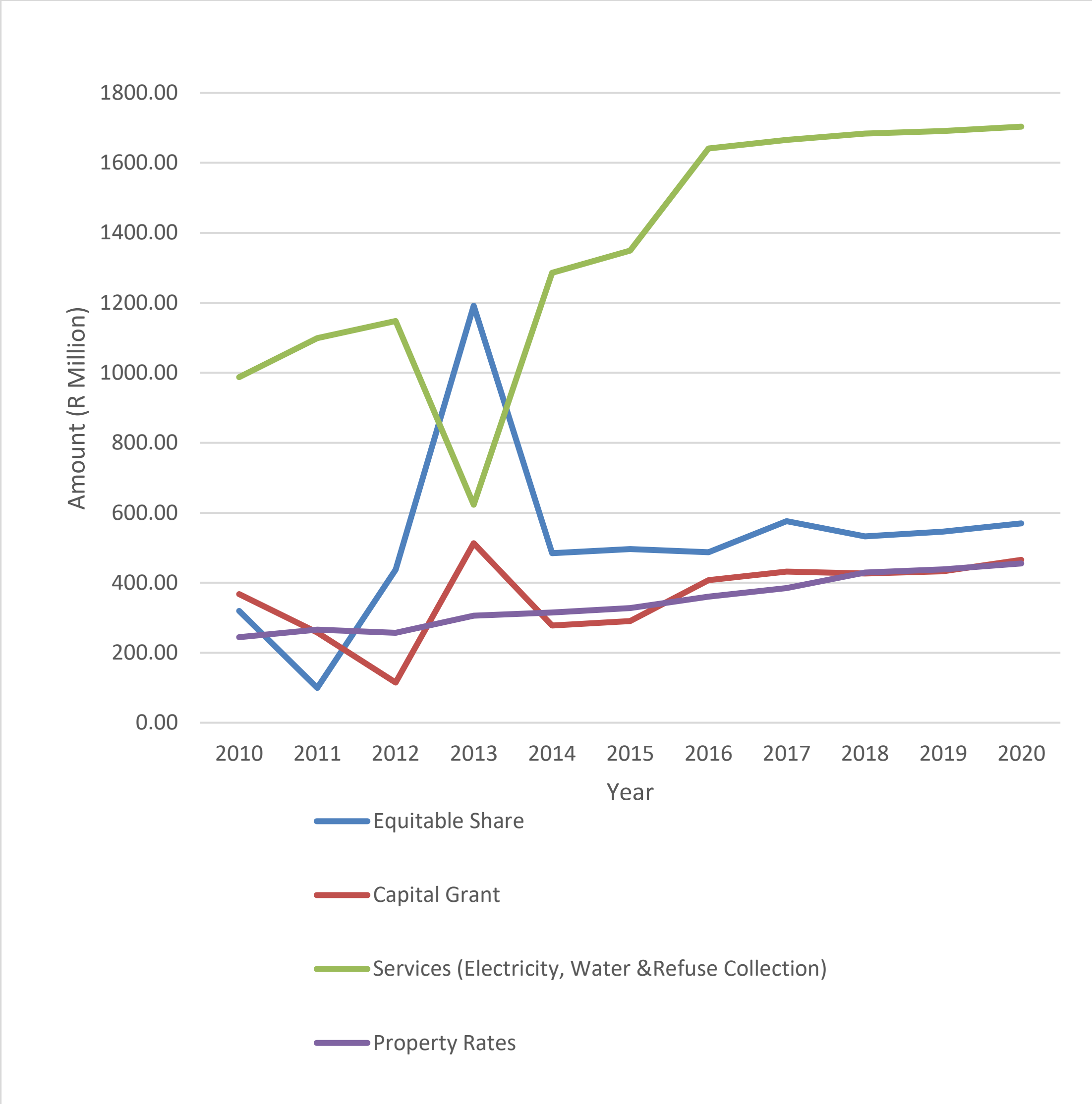

Figure 3. Trends in sources of revenue, Dr Kenneth Kaunda District 2010 to 2021 (Municipal Electronic Database Archives)

5.3 Contribution by Different Revenue Sources to Total Revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District (1998-2019)

Figure 4 shows the contribution of revenue sources to total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District from 2010 to 2021. Figure 4 shows that, except for Maquassi Hills, the highest contributor to revenue is services. In Maquassi Hills, the highest contributor is capital grant. This is because National CoGTA provides capital grant to municipalities for provision and construction of municipal infrastructure. Therefore, the National

Department of CoGTA will provide more funding to struggling municipalities, such as Maquassi Hills, that are unable to generate revenue.

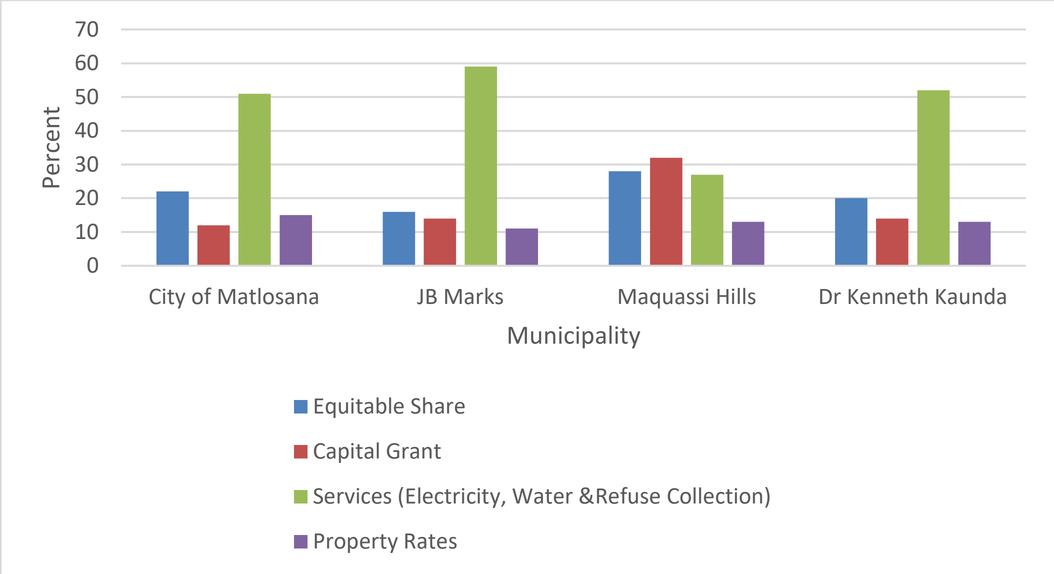

Figure 4. Contribution of revenue sources to total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District: 2010 to 2021 (Municipal Electronic Database Archives).

5.4 Trends in Percentage Contribution of Property Tax Revenue to Total Revenue: City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District – 2010 to 2020

On average, property rates contributed 13 percent to the total revenue in Dr Kenneth Kaunda District over the period 2010 to 2020. In the City of Matlosana, JB Marks and Maquassi Hills local municipalities, property taxes contributed averages of 16 ,11 and 14 percent, respectively, to the total revenue over the same period. Figure 5 shows the trends in percentage contribution of property tax revenue to total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District for the period 2010 to 2020. Moreover, Figure 5 shows that on average, the percentage contribution of property taxes to the total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District for the period 2010 to 2020 has not varied much.

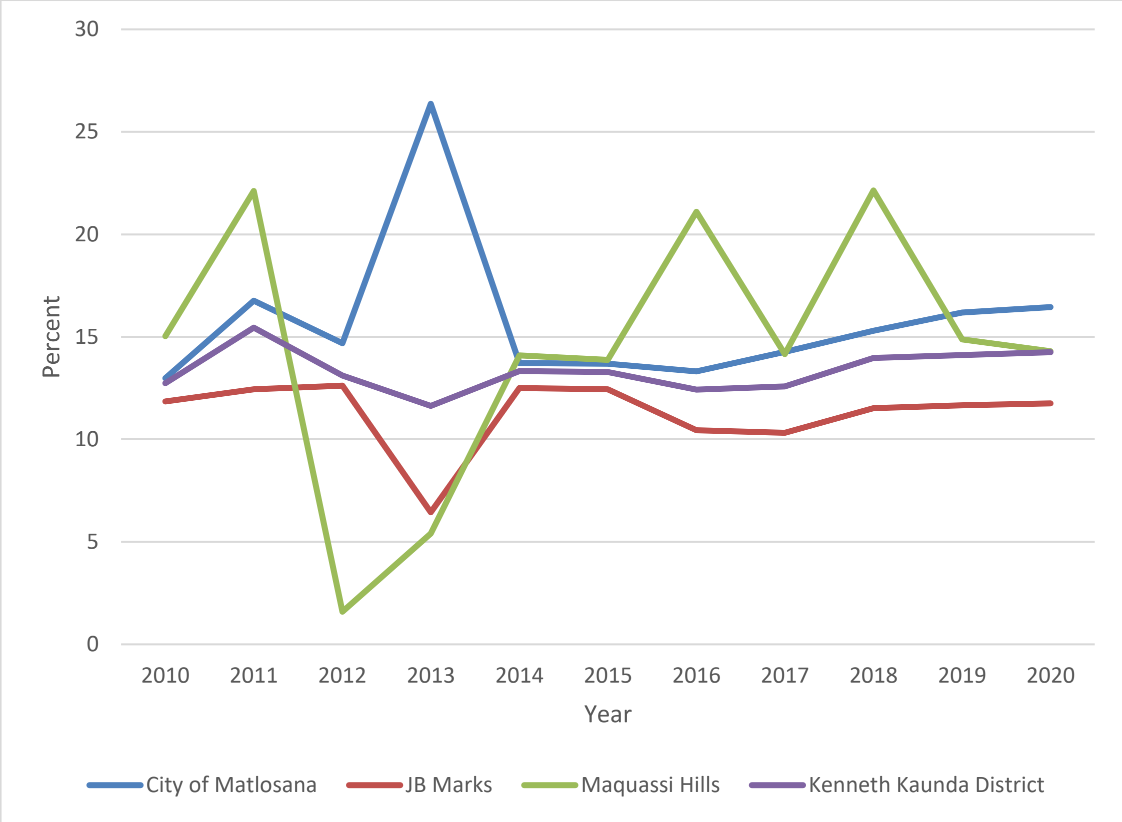

Figure 5. Trends in percentage contribution of property tax revenue to total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District -2010 to 2020 (Municipal Electronic Database Archives)

However, figure 5 shows that the percentage contribution of property taxes to total revenue dipped and spiked for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities at different times. The spikes and troughs tended to cancel each other thus smoothening the variation in the percentage contribution of property taxes to the total revenue of Dr Kenneth Kaunda District.

5.5 Trends in Property Tax Revenue for the North-West Province and Dr Kenneth Kaunda District: 2000-2019

Over the period 2000 to 2019, property taxes for the North-West Province increased from R589,106,350 to R1,865,442,365 an increase of about 217 percent as shown in figure 6. In the same period, property taxes in Dr Kenneth Kaunda District increased from R166,376,622 to R638,848,467, an increase of about 284 percent.

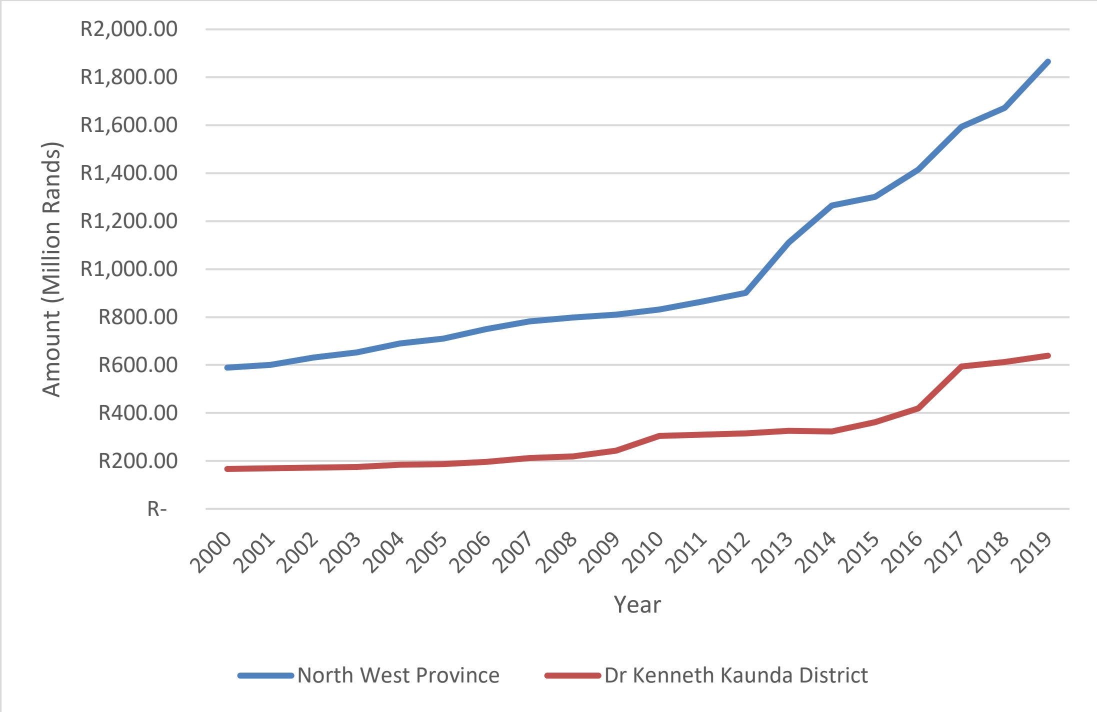

Figure 6. Trends in property tax revenue for North-West Province and Dr Kenneth Kaunda District: 2000-2019 (Municipal Electronic Database Archives and RSA, 2021)

Furthermore, figure 6 shows that the property tax trends in North-West Province and in Dr Kenneth Kaunda District followed a similar pattern with a steady increase up to around 2012/2013 when a sharp increase occurred. Based on the information obtained from the Chief Financial Officers of the local municipalities in Dr Kenneth Kaunda District, the sharp increase is attributed to an improvement in the application of the MPRA 2004.

5.6 Trends in Annual Property Tax Revenue Growth Rate for North-West Province and Dr Kenneth Kaunda District: 2000-2019

Figure 7 shows that in North-West Province and Dr Kenneth Kaunda District, the growth rate in property taxes averaged 6 and 8 percent, respectively.

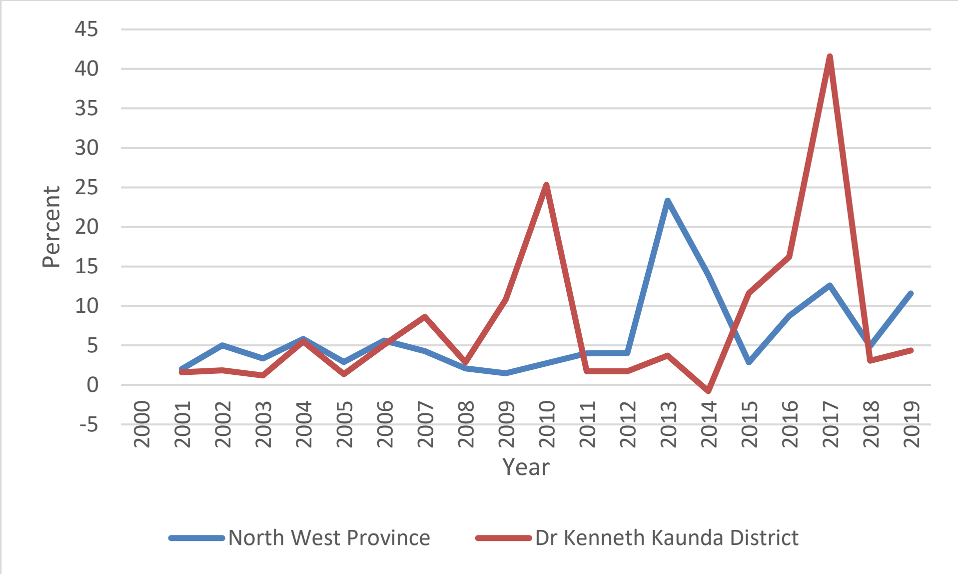

Figure 7. Trends in annual property tax revenue growth rate for North-West Province and Dr Kenneth Kaunda District - 2000 to 2019 (Municipal Electronic Database Archives and RSA, 2021)

Figure 7 also shows that the growth rate fluctuated more in Dr Kenneth Kaunda District than in North-West Province. The growth rate in Kenneth Kaunda peaked in 2010 and 2017, and on both occasions crashed down thereafter. In the North-West Province, the peak was in 2013. This pattern shows that the variations from other municipalities in the province counterbalanced the variations in Dr Kenneth Kaunda District. The causes of the peaks and the reasons why they cannot be maintained require further investigation.

5.7 Trends in Percentage Contribution of Dr Kenneth Kaunda District to Property Taxes of North-West Province: 2000 to 2019

The contribution of Dr Kenneth Kaunda to the property taxes of North-West Province averaged 30 percent over the period 2000 to 2019. Figure 8 shows the trend in percentage contribution of Dr Kenneth Kaunda District to property taxes of North-West Province for the period 2000 to 2019. The percent contribution has fluctuated between 25 and 35 percent.

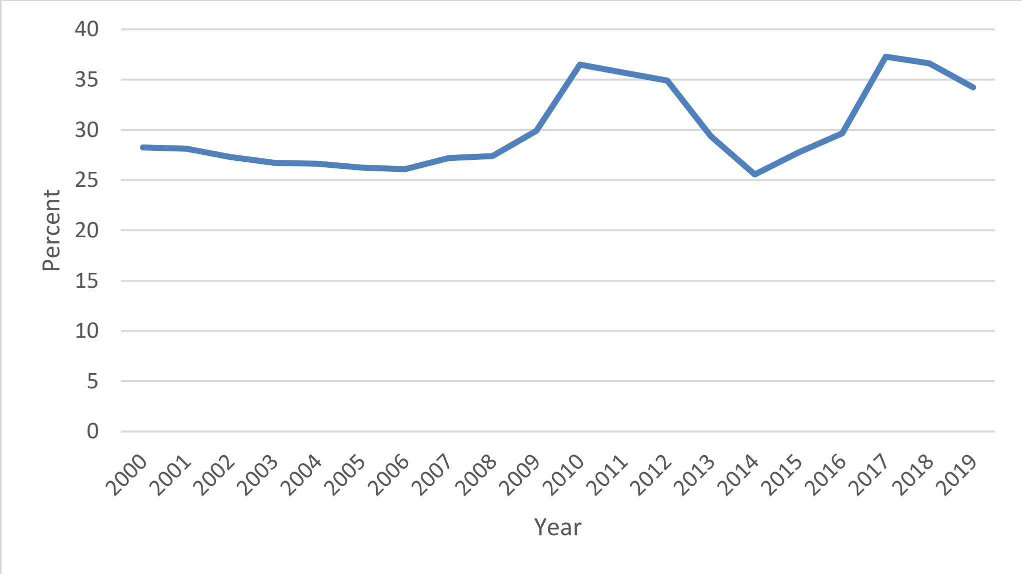

Figure 8. Trends in percentage contribution of Dr Kenneth Kaunda District to Property taxes of North-West Province - 2000 to 2019 (Municipal Electronic Database Archives and RSA, 2021)

5.8 Trends in Property Tax Revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District: 1998-2019[1]

Figure 9 shows trends in the property tax revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District for the period 1998-2019. Between 1998 and 2019, the municipal revenue from property taxes for Kenneth Kaunda District increased from about R160 million to about R639 million, an increase of about 300 percent. In the same time period, for the City of Matlosana Local Municipality, municipal property tax revenue increased from about R87 million to about R318 million, an increase of about 265 percent, that of JB Marks Local Municipality increased from about R66 million to about R318 million, an increase of about 382 percent while that of Maquassi Hills increased from about R7 million to about R37 million, an increase of 435 percent. These figures show tremendous increases in property tax revenue for the municipalities over the period 1998 to 2019, close to a threefold increase and in some cases more than a threefold increase. The Chief Financial Officers in the three municipalities argue that the drivers of revenue

[1] Some of the data are available from 1998 to 2020 but some are available from 1998 to 2019. For consistency of comparisons, the analyses are always performed for the period 1998 to 2019.

include, but are not limited to the general increase in the economy. This means that a large number of people and property developers started to buy and construct properties within the municipalities (in the City of Matlosana there were mining developments), secondly, the municipalities introduced new general valuation rolls and lastly municipalities sharply increased rates and tariffs.

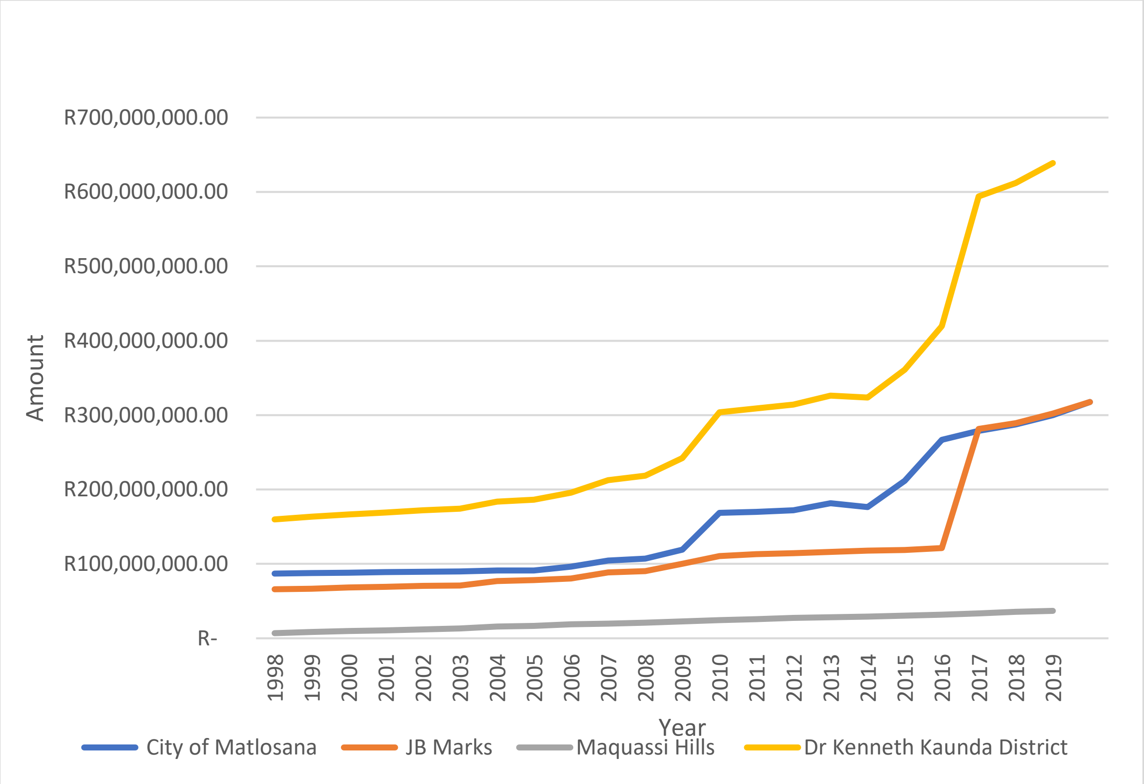

Figure 9. Trend in property tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

Figure 9 also shows that except for Maquassi Hills Local Municipality where the increase in property tax revenue has been steady over the period 1998 to 2019, the City of Matlosana and JB Marks local municipalities experienced sharp increases in property tax revenues in 2008-9 and again in 2014-16. This was mostly due to the drivers of municipal revenues identified by the Chief Financial Officers.

The City of Matlosana, JB Marks and Maquassi Hills Local Municipalities contributed 52, 40 and 8 percent, respectively, to Dr Kenneth Kaunda District property tax revenue over the period 1998 to 2019. Before 2004, they respectively contributed 52, 41 and 7 percent while after 2004 they respectively contributed 52, 40 and 8 percent showing no significant changes in the respective contribution of the municipalities towards district property tax revenues as a result of the introduction of the MPRA 2004.

Figure 10 shows the annual property tax revenue growth rate for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District.

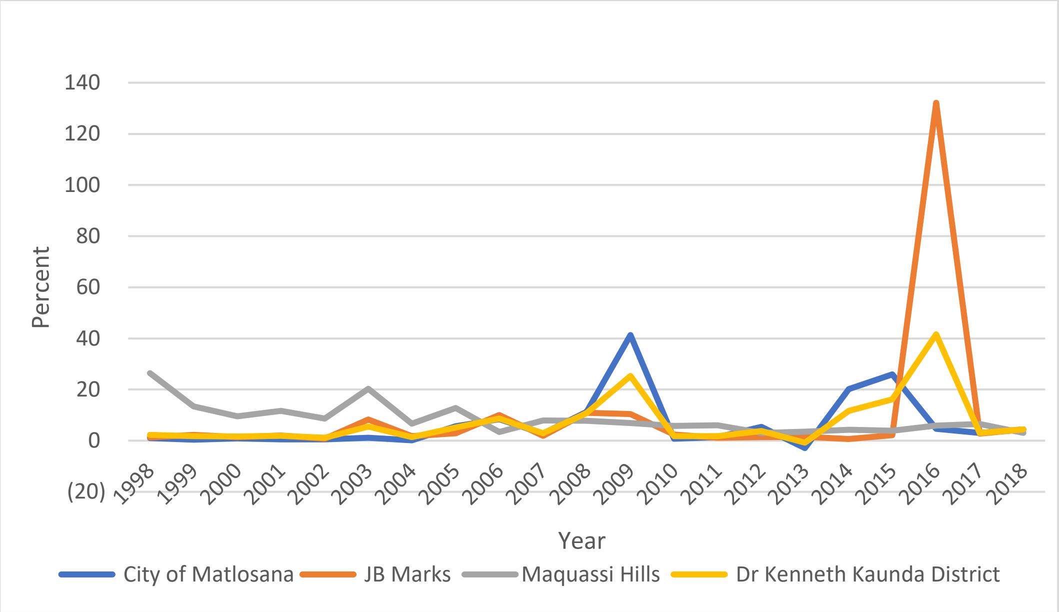

Figure 10. Trend in annual property revenue growth rate for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

The annual property tax revenue growth rate averaged 6, 11, 8 and 7 percent, respectively, for the City of Matlosana, JB Marks, Maquassi Hills Local Municipalities and Dr Kenneth Kaunda District for the period 1998-2019. The respective average annual revenue growth rates were 1, 3, 15 and 9 before 2004 and 9, 12, 6 and 9 after 2004. Only Maquassi Hills achieved a lower property tax revenue growth rate after 2004 compared to before as shown in figure 10. This suggests that the City of Matlosana and JB Marks were able to take advantage of the provisions of the MPRA 2004 while Maquassi Hills could not. In fact, figure 10 shows that the annual property tax revenue growth rate for Maquassi Hills consistently declined over the period 1998 to 2019, a phenomenon which requires explanation, especially given the provisions of the MPRA 2004. Although further investigation is required, the decrease can be attributed to the rural nature of Maquassi Hills. The rural municipalities did not enjoy the economic growth that occurred in other municipalities in a similar way. Also, rural areas were formally not part of the rateable areas. These became rateable with the concept of the wall-to-wall municipalities, the rural customers boycotted paying rates as a result.

The growth rate of property tax revenue also experienced sharp, but unstained increases in the City of Matlosana and JB Marks during the periods 2008/09 and 2014/17. These sharp increases were, in part, a result of the local municipalities taking advantage of the provisions of the MPRA 2004.

5.9 Trends in the Number of Properties Billed by the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District: 1998-2019

Figure 11 shows trends in the number of properties billed by the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District. In the City of Matlosana, the number of billed properties increased from 95 785 to 310 431 properties in the period 1998 to 2019, an increase of about 224 percent. During the same period, in JB Marks Local Municipality, the billed properties increased by about 93 percent from 94 051 to 181097 whereas in Maquassi Hills Local Municipality the increase was from 20 505 to 43 139, an increase of 110 percent. In total, in the Dr Kenneth Kaunda District, the billed properties increased form 210 341 properties to 534 667, an increase of 154 percent.

Neither the increase in the number of billed properties nor the pattern of increase depicted in figure 11 can sufficiently explain the pattern of changes in the property tax revenue experienced by the local municipalities and the district. However, for the City of Matlosana, there is a sharp increase in billed properties in 2008 which coincides with a sharp increase in property tax revenue. The addition of agriculture as a source of property tax revenue could be a contributing factor to the increase in property tax revenue. However, agriculture’s contribution has been less than 1 percent for the three municipalities and the district.

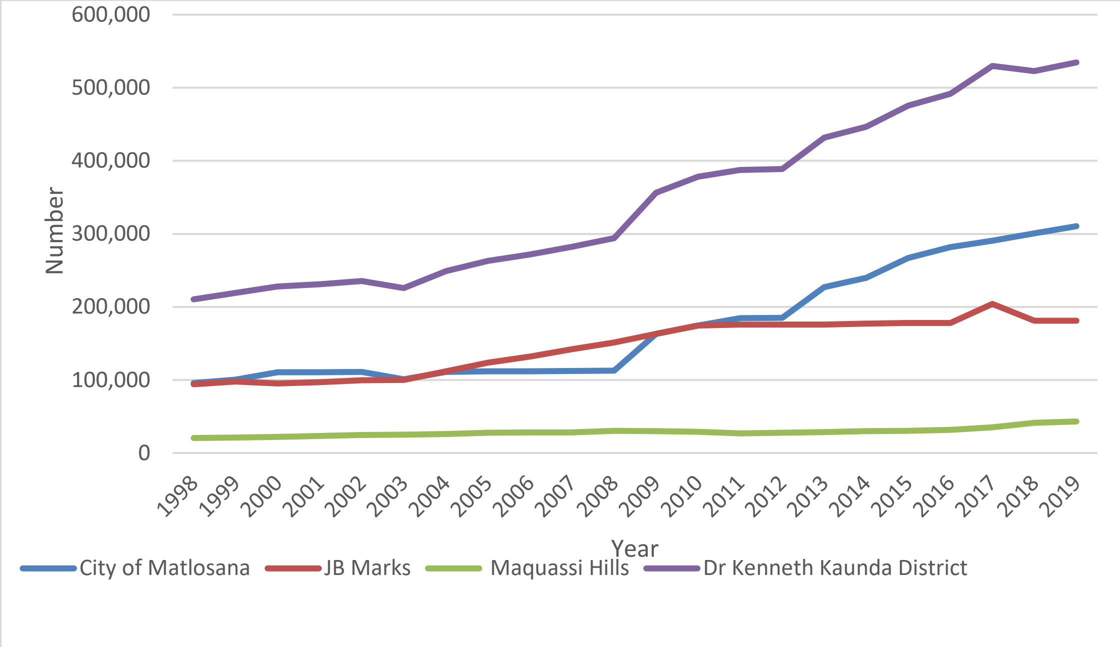

Figure 11. Trends in the number of billed properties for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

5.10 Trends in Residential Property Tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities: 1998-2019

Figure 12 shows trends in residential property taxes for the City of Matlosana, JB Marks and Maquassi Hills local municipalities. In the City of Matlosana, residential property tax increased from about R84 million to about R300 million, an increase of about 236 percent between 1998 and 2019. Figure 12 shows that the pattern of increase was steady, except for around 2009/10 and 2014/15 when sharp increases occurred. It would be interesting to find out if these sharp increases in residential property tax in the City of Matlosana Local Municipality were as a result of the local municipality applying the provisions of the MPRA 2004. It appears to be the case as these increases coincide with the introduction and application of the new valuation roll.

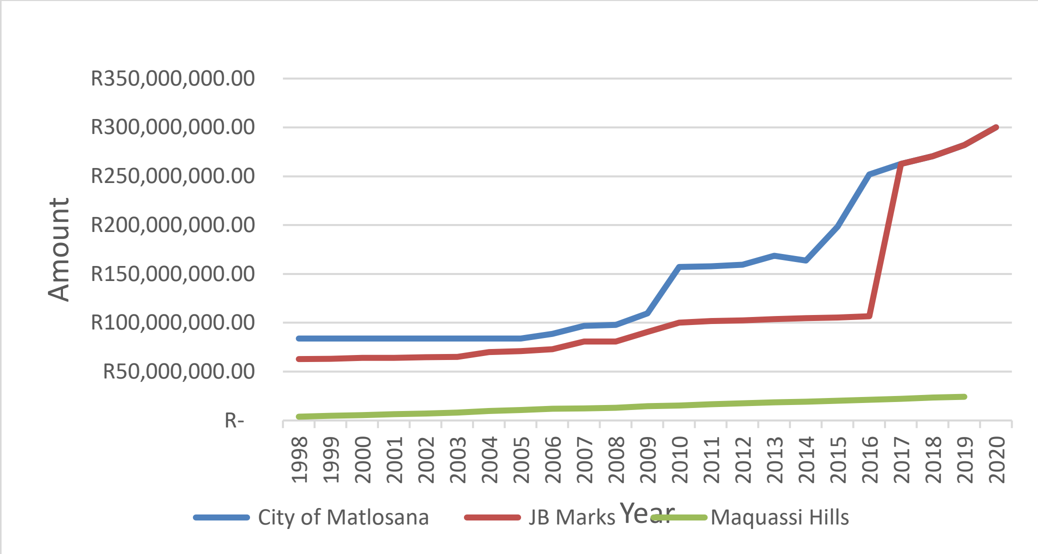

Figure 12. Trends in residential property tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities in Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

In JB Marks, residential property tax increased from about R63 million to about R300 million, an increase of about 377 percent between 1998 and 2019. Figure 12 shows that the pattern of increase was steady, except for around 2008/09 when the rate of increase improved slightly and in 2015/16 when there was a very sharp increase. The increases, especially the sharp increase in 2015/16, were as a result of the JB Marks Local Municipality applying the provisions of the MPRA 2004. In Maquassi Hills Local Municipality, residential property tax increased from about R4 million to about R24 million, an increase of about 526 percent between 1998 and 2019. Figure 12 shows that in Maquassi Hills, the increase in residential property taxes was low and steady over the period 1998 to 2019. This suggests that the Maquassi Hills Local Municipality may not have taken advantage of the provisions of the MPRA 2004 to increase this source of revenue.

5.11 Trends in Business Property Tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities: 1998-2019

Figure 13 highlights trends in business property taxes for the City of Matlosana, JB Marks and Maquassi Hills local municipalities for the period 1998 to 2019. In the City of Matlosana, business property tax increased from about R183 000 to about R1.7

million, an increase of about 775 percent between 1998 and 2019. Furthermore, figure 13 shows that the pattern of increase was slow but steady until around 2011 when a sharp increase was experienced. In 2016, an even sharper increase was experienced but these gains were not maintained, slumping back to the projected growth path in 2018. The sharp increase in business property tax that occurred in the JB Marks Local Municipality during 2011 was as a result of the local municipality applying the provisions of the MPRA 2004. The causes of variation between 2016 and 2018 require further investigation, otherwise, the fact that the business property revenue tax growth slumped back to a predictable path in 2018 suggests variation due to measurement error.

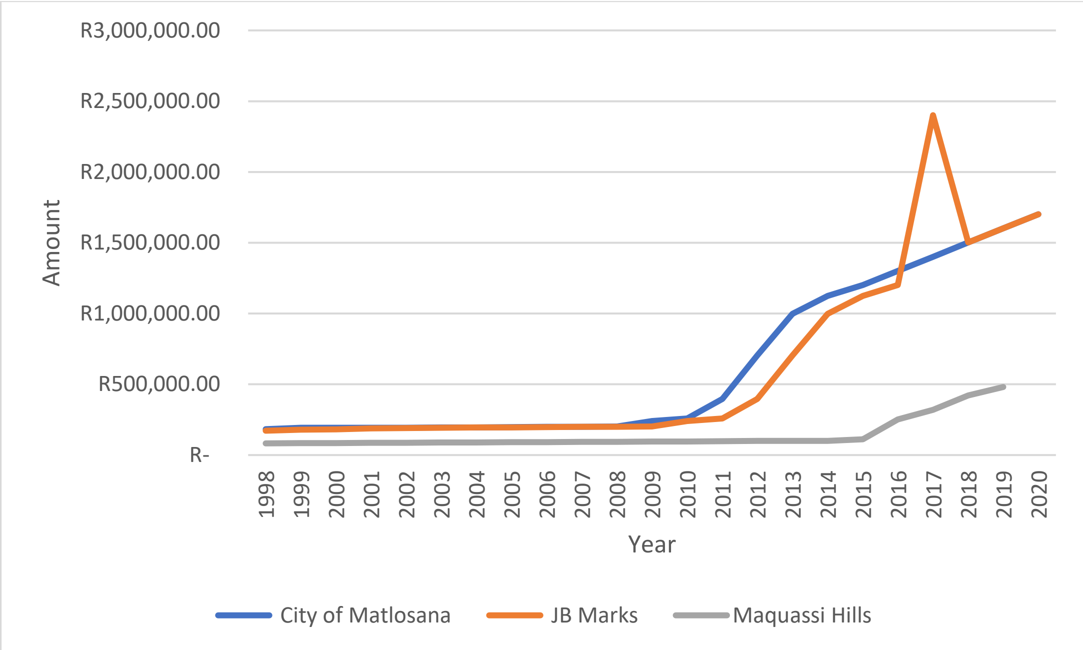

Figure 13. Trends in business property tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities in Dr Kenneth Kaunda District - 1998-2020 (Municipal Electronic Database Archives)

In JB Marks, business property tax increased from about R172 000 to about R1,7 million, an increase of about 889 percent between 1998 and 2019. As shown in figure 13, the pattern of increase was steady, except for around 2008/09 when the rate of increase grew slightly and in 2015/16 there was a very sharp increase. The sharp increase in 2015/16 was due to JB Marks Local Municipality applying the provisions of the MPRA 2004. In the Maquassi Hills Local Municipality, business property tax increased from about R83, 000 to about R481, 000, an increase of about 482 percent between 1998 and 2019. Figure 13 shows that in Maquassi Hills, the increase in business property tax was low and steady until 2015 when the revenue increased and maintained the rate of increase since then. The increase in business property tax in 2015 was as a result of the Maquassi Hills Local Municipality applying the provisions of the MPRA 2004.

5.12 Trends in Agriculture Property Tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities: 1998-2020

Figure 14 depicts trends in agriculture property taxes for the City of Matlosana, JB Marks and Maquassi Hills local municipalities for the period 1998 to 2019. Imposing tax on agriculture properties started in 2004 as a direct result of the introduction of the MPRA 2004. In the City of Matlosana, agriculture property tax increased from about R96 000 to about R401 000, an increase of about 274 percent between 1998 and 2019. Figure 14 shows that the pattern of increase has been rapid and almost linear since 2004. This increase in agriculture property tax was as a result of the local municipality applying the provisions of the MPRA 2004.

In JB Marks, agriculture property tax increased from about R96 000 to about R380 000, an increase of about 295 percent between 1998 and 2019. Figure 14 shows that the pattern of increase was rapid and linear, except for the spike which was experienced in 2018. In 2019, the agriculture property taxes for the JB Marks Local Municipality slumped back to the predictable trajectory. This raises the question of whether the spike was not due to measurement error. In the Maquassi Hills Local Municipality, agriculture property tax increased from about R30, 000 to about R40, 000, an increase of about 34 percent between 1998 and 2019. Figure 14 shows that in Maquassi Hills, the increase in agriculture property taxes was very low but steady. The reason for the Maquassi Hills Local Municipality not enjoying the rapid increases in agriculture property taxes, that are being enjoyed by the other two local municipalities in Dr Kenneth Kaunda District, is that the farmers seriously objected to the introduction of property taxes in the rural areas.

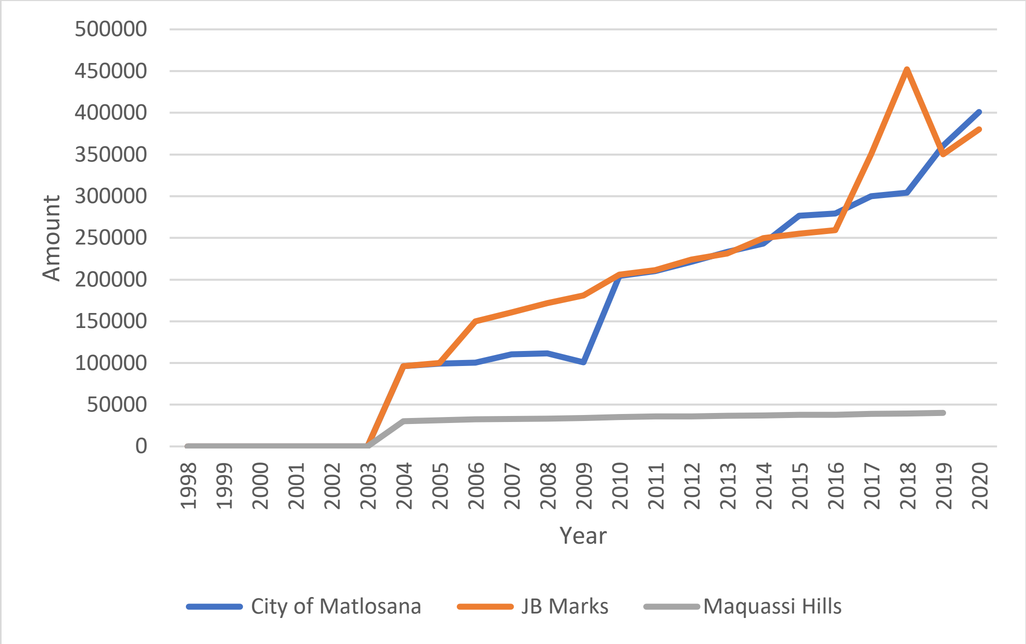

Figure 14. Trends in agriculture property tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities in Dr Kenneth Kaunda District - 1998 to 2020 *(Municipal Electronic Database Archives)*

5.13 Trends in Government Property Tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities: 1998-2020

Figure 15 shows trends in government property taxes for the City of Matlosana, JB Marks and Maquassi Hills for the period 1998 to 2019. In the City of Matlosana Local Municipality, government property tax increased from about R3 million to about R15 million, an increase of about 444 percent between 1998 and 2019. Furthermore, the pattern of government property tax growth rate experienced some kinks including significant variations between 2008 and 2013 and again between 2017 and 2019. Despite a few kinks here and there, the pattern of increase has been rapid and almost linear for the period 1998 to 2019. Since it appears that the rate of growth did not change in 2004, this is a sign that the application of the MPRA 2004 did not occur immediately after its introduction.

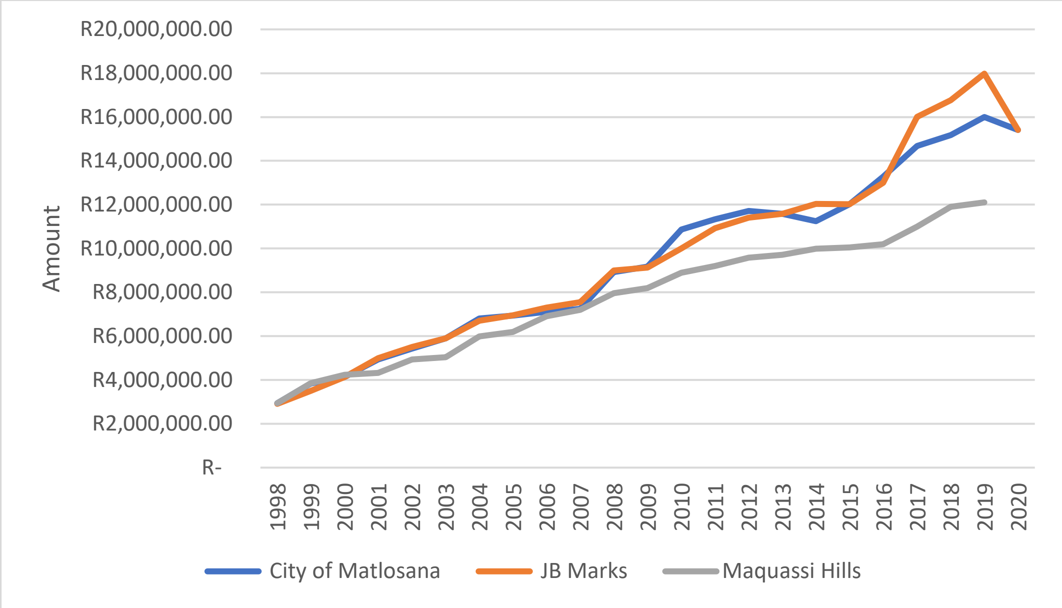

Figure 15. Trends in government property tax for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities in Dr Kenneth Kaunda District - 1998 to 2020 (Municipal Electronic Database Archives)

In JB Marks, government property tax increased from about R3 million to about R15 million, an increase of about 430 percent between 1998 and 2019. Figure 15 shows that the pattern of increase experienced kinks and high variation throughout but especially between 2017 and 2019. Despite this, the growth has been high, steady and almost linear for the period 1998 to 2019.

In Maquassi Hills, government property tax increased from about R3 million to about R12 million, an increase of about 312 percent between 1998 and 2019. Figure 15 indicates that in Maquassi Hills, the increase in government property taxes was rapid and linear. This linear growth suggests that none of the increase in government property tax after 2004 can be attributed to the introduction of the MPRA 2004.

5.14 Relative Contribution of Residential, Government, Business and Agriculture Property Tax to the Property Tax Revenue for Dr Kenneth Kaunda District: 1998 to 2019

Table 2 presents the relative contribution of residential, government, business and agriculture property tax to total property tax for Dr Kenneth Kaunda District for the period 1998 to 2019. By far, the highest contributor is residential property tax, accounting for an average of 90.3 percent for the period 1998 to 2019. In the City of Matlosana and JB Marks Local Municipalities, residential property tax accounted for 93.4 and 91.4 percent, respectively. In Maquassi Hills, residential property tax accounted for 62.5 percent. The contribution of residential property tax in Maquassi Hills is lower than in the other two local municipalities. This is explained by the fact that the municipality is the smallest and is mostly rural, therefore, the tax base is very shallow.

Government property tax contributed an average of 9.2 percent to Dr Kenneth Kaunda property tax revenue while business and agriculture, respectively, accounted for 0.4 and 0.1 percent. This pattern is similar to the City of Matlosana and JB Marks Local Municipalities. However, in the Maquassi Hills Local Municipality, the contribution of government, business and agriculture is 36.8, 0.7 and 0.1, respectively. Government property tax contributed significantly higher to total property tax revenue in the Maquassi Hills Local Municipality compared to the City of Matlosana and JB Marks Local Municipalities. The size and rural nature of Maquassi Hills mostly explains this pattern.

Table 2. Relative contribution of residential, government, business and agriculture property tax to the property tax revenue for Dr Kenneth Kaunda District, 1998-2019.

Municipality	**Property Tax Revenue Sources**			
	Residential	**Government**	**Business**	**Agriculture**
City of Matlosana	93.4	6.1	0.3	0.1
JB Marks	91.4	8.1	0.4	0.1
Maquassi Hills	62.5	36.8	0.7	0.1

Source: Municipal Electronic Database Archives.

Figure 16 shows the percentage contribution of residential property tax within the District: City of Matlosana, JB Marks and Maquassi Local Municipalities. The relative contribution of residential property tax to the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities has held steady over the period 1998 to 2019. This trend is irrespective of the introduction of the MPRA 2004.

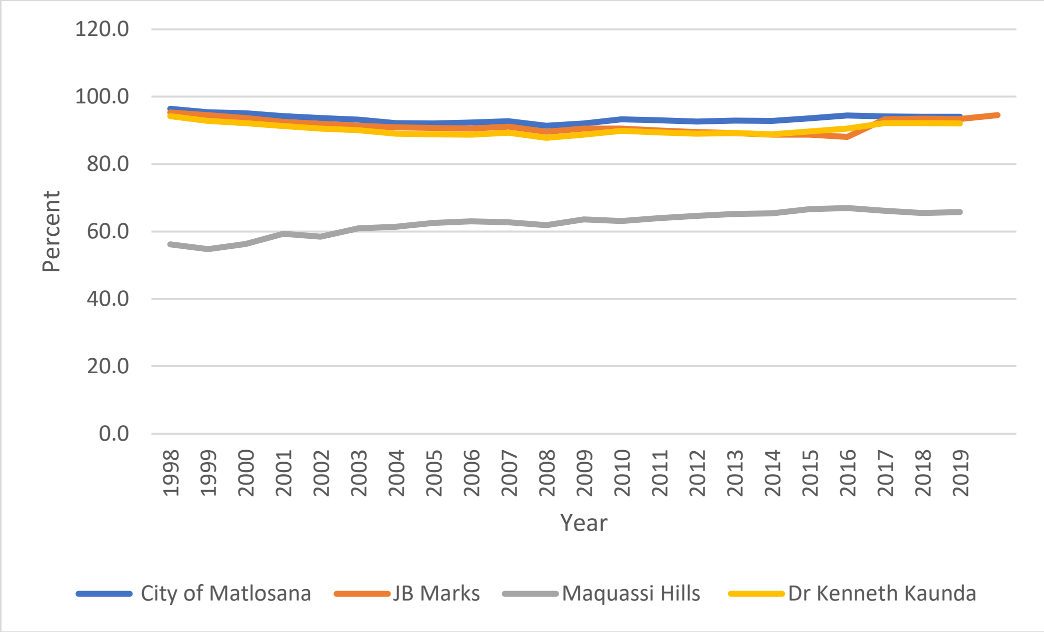

Figure 16. Percent contribution of residential property tax to the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities, and Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

Figure 17 shows that government property tax contributes between 5 and 10 percent to total property tax revenue for the City of Matlosana and JB Marks Local Municipalities, and Kenneth Kaunda District.

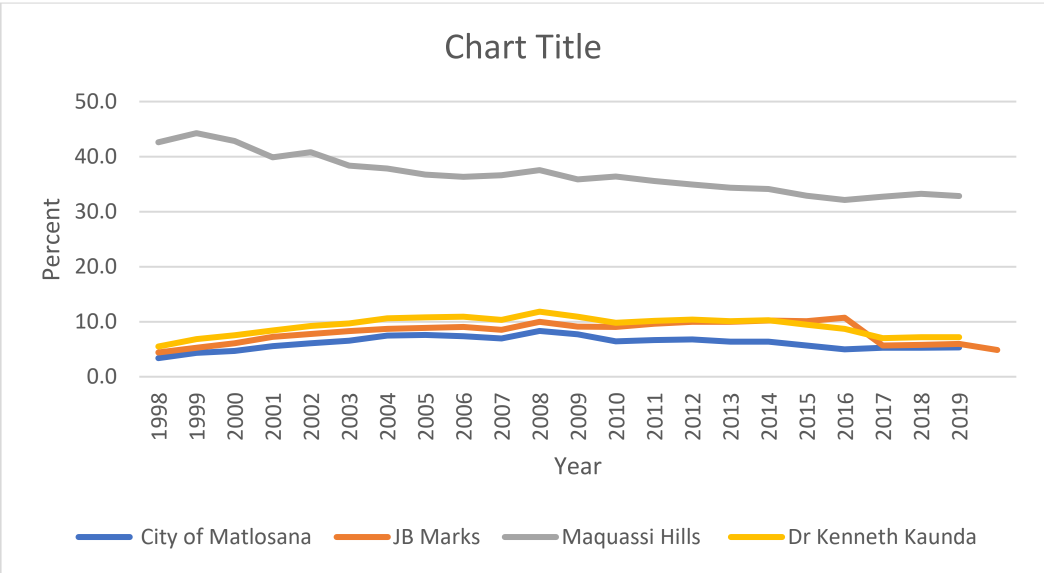

Figure 17. Percent contribution of government property tax to the City of Matlosana, JB Marks, Maquassi Hills Local Municipalities and Dr Kenneth Kaunda District - 1998 to 2019 (Municipal Electronic Database Archives)

The pattern, as shown in figure 17, is a convex shape, peaking around 2008. For Maquassi Hills Local Municipality, the contribution of government property tax ranges between 35 and 45 percent and has declined since 1998. These trends require further detailed investigation and explanation.

5.15 Conclusion

This chapter highlighted the variation in property revenue for the municipalities and generally demonstrated that revenue has increased over time. Generally, the drivers of revenue, amongst others, include economic growth within the municipalities which translates to an increase in the number of people and property developers buying and constructing properties within the municipalities. In the City of Matlosana, the increase is partly explained by mining developments. Also, the introduction of new general valuation rolls by municipalities led to the increase in revenue. In addition, municipalities drastically increased rates and tariffs. However, not all municipalities enjoyed the revenue increases due to the property boom. Rural municipalities with very shallow tax bases, like Maquassi Hills, did not experience these increases. In the case of Maquassi Hills, this predicament was further exacerbated by the fact that rural communities boycotted the introduction of the property taxes in rural areas emanating from the introduction of the MMRA. Despite the variation in property revenue amongst the municipalities, data shows that the MPRA has had an impact on increasing revenue for the municipalities. Therefore, a carefully designed study needs to be conducted in order to isolate the impact of the MPRA from other possible favourable factors impacting on revenue, such as economic growth.

CHAPTER 6: RESULTS AND DISCUSSION

6.1 Introduction

This chapter presents the results of the qualitative and the quantitative analyses. Thematic analysis was used for qualitative data and descriptive analysis (means, frequencies and graphs) was used for quantitative data. The SPSS was used to analyse the quantitative data while the themes were identified using NVIVO.

6.2 Qualitative results

The qualitative data was analysed using thematic analysis. The following themes were identified:

- Challenges experienced by municipalities in implementing MPRA
- How these challenges affect municipal property rates revenue
- Implementation of solutions and dispute resolution
- Support structures for implementing MPRA: Council, CoGTA and SALGA
- Hiring municipal valuers
- Municipal valuer and municipal skills level
- Suggestions that would improve implementation of MPRA

Each of these themes will be analysed in turn below.

6.2.1 Challenges experienced by municipalities in implementing MPRA

Respondents mentioned that municipalities in the province are experiencing challenges with the implementation of the MPRA, primarily during the procurement of a service provider or acquiring the services of a municipal valuer, and the administration, maintenance and/or updating of the municipal valuation roll. Valuers sometimes do not update the supplementary roll or do not perform proper maintenance of the roll so that it is at the required level. Furthermore, the inadequacy of valuation skills was highlighted as a problem. It was also mentioned that sometimes challenges were created internally. For instance, if a municipal valuer is promoted, this would leave a vacuum and the valuation process would depend on the smoothness of the supply chain management (SCM) process in outsourcing the function.

It was mentioned that sometimes the SCM process presents challenges and that, in general, some departments are grossly understaffed. Respondents also mentioned that municipalities lack experience in general, especially in-house valuers. Moreover, most municipalities do not plan in advance or do not plan the valuation processes properly, which results in the valuation roll not being properly done. This means that at the end of the process, if the valuation roll is not properly done, the municipality will not be in a position to levy adequately for those properties for a period of four years.

Respondents also mentioned that municipalities experience challenges from the communities, particularly in implementing the agricultural property taxes on farmers. Respondents mentioned that in some municipalities, where agricultural land is significant, most of the ratepayers are contesting for land. For some, the amalgamations that occurred did not adequately address the land question and this was exacerbated by the introduction of the MPRA. Farmers are, therefore, contesting both land and rebates.

Respondents mentioned that some of the challenges can be attributed to lack of knowledge and awareness among the communities. It was mentioned that public understanding was that the valuation of the property related mainly to the size of the property but not on the development of the property. However, the MPRA requires that the valuation of the land and property be based on both development and size of the property. Some of the ratepayers object to the valuation roll and sometimes take the municipality to court. The issue of misunderstanding is demonstrated by a quote from one respondent who mentioned that: "Yes, municipality was in the past confronted with the challenges from the farmers, basically about misunderstanding on the rebates expected from the municipality in the implementation of the new amendment. But challenge is resolved now".

6.2.2 How the challenges affect municipal revenue

Respondents mentioned that the challenges with the valuation roll directly affect revenue for the municipality. For instance, a municipality would not be able to bill properties for a period of four years if the valuation roll is not properly done. This results in a massive loss of revenue for the municipality. It was also mentioned that loss of revenue also occurs during protracted legal cases or suspension of levying the property while waiting for the objection and appeal to be ventilated before the claimant can start paying the rates. This does not only apply to protracted cases. It was mentioned that in the case that the customer objects to the valuation process, if the municipality is not able to deal with that objection, that customer would not pay his/her services rates until that objection is ventilated. One respondent mentioned that: "Municipalities lose revenue collections, since they are struggling with disputes and challenges around accuracy of the valuation roll. Therefore, revenue collection is not coming through. Once the clients are not happy it will be difficult for them to pay."

It was also mentioned that the misunderstanding of the MPRA resulted in some resistance from community members who then bring objections to the whole valuation process. This results in loss of revenue because once a customer disputes the municipal account, they are allowed to stop paying that account. Another aspect which affects revenue, as mentioned by the respondents, is that if the valuation roll is not updated, the municipality cannot bill on the latest figures, it will continue to bill on the previous figures which are lower and ultimately receive understated revenue on a monthly basis.

In addition, it was mentioned that revenue collection from agriculture sources or farmers was severely affected, since farmers feel that they need discounts. Respondents indicated that this challenge is worsened by the fact that the agricultural segment of the valuation roll came into effect in 2014 after the amendment of the MPRA. For this reason, the municipalities still experience resistance from the agricultural segment of the rates. Respondents mentioned that even though it is well known that the challenges with MPRA implementation result in loss of revenue, it is reported that a municipality receive on average five to fifteen complaints from ratepayers on agricultural related issues. There is no quantification of how much was lost so there is no municipality that knows how much it is losing in terms of the challenges in respect of implementing the MPRA.

6.2.3 Solution implementation and dispute resolution

In terms of the solutions to some of the challenges raised, it was indicated that, for the valuers, municipalities should implement a hybrid type of rate unit within their establishments, whereby they would appoint a private and experienced municipal valuer, and have an in-house valuer and assistant valuers that will assist with co-ordination and maintenance of the municipal valuation roll. This, it was mentioned, would assist the municipality to administrate and implement the MPRA accordingly. As one respondent mentioned: “A potential solution will be to appoint officials for the section and fully outsource the function to private service providers because a private service provider will always work efficiently and effectively for reputation, and according to monthly targets.”

Respondents also mentioned that, in generating solutions, lessons should be learned from previous experience and highlighted that municipalities are not good at learning from previous experience. Respondents also suggested that the real solution to the problem of property valuation is public engagement, and stakeholder outreach, training and awareness, particularly on the agricultural and farming category. It was also indicated that in some municipalities, public engagement and participation is ongoing and municipalities are hoping to complete that process any time. However, respondents felt that this is a process that should be ongoing and which should always be in progress.

It was also reported that during the process of public engagement, some people came to the office with enquiries. It was also mentioned that in some municipalities, management developed information booklets that were distributed to all wards for clarification. However, this is still risky because the booklets may be misinterpreted and/or misunderstood since its effectiveness depends on the levels of education of the public. One respondent mentioned that:

> The development of valuation roll which is free from objection and fully consulted with municipal customers to avoid unnecessary challenges is a solution. Another potential solution is that management should plan well in time and involve the public in everything they do.

Respondents agreed that consultation with and education of municipal customers on the MPRA would be key to avoid unnecessary challenges. Another potential solution that was mentioned is that management should plan well in advance and involve the public in everything they do, particularly on issues that involve their money or properties, such as the MPRA. Furthermore, municipalities should prepare well for the procurement of the municipal valuer since most municipalities do not have technical skills to deal with the requirement of Section 30 of MPRA No 6 of 2004. The respondents also mentioned that municipalities should acquire technical skills on the MPRA, by appointing valuers and assistant valuers to assist in the maintenance of the valuation roll.

Respondents pointed out that, generally, solutions are not implemented because municipalities are still in the process of solving and addressing some of the challenges. It was mentioned that municipalities need to train enough staff, particularly in the rate management unit, in order to address all challenges within the MPRA implementation process. Respondents highlighted that even though most solutions are not implemented, disputes arising from the MPRA are resolved within one to two years but due to COVID-19, it has been three years.

6.2.4 Support structures for implementing MPRA: Council, CoGTA and SALGA

Most respondents agreed that the Council, at all times, assists the municipal administration in implementing the MPRA by approving reviewed policies and by-laws which ultimately become council resolutions for implementation. One respondent mentioned that: "Yes, I observe almost all …. municipalities have council support in implementing the act by approving reviewed policies and by-laws." They also agreed that Co-operative Governance and Traditional Affairs (CoGTA) provides the necessary support in implementing the MPRA and has appointed the appeal board members to assist municipalities. Concerning the support from CoGTA, one respondent mentioned that: "I think the province provides the necessary support in implementing the act more in particular during the development of the new valuation roll and appeal process". Regarding support from the South African Local Government Association (SALGA), one respondent summed it up as follows: "Yes, SALGA provided the necessary support in implementing the Act, more importantly during protracted legal challenges"

6.2.5 Valuation skills in municipalities and hiring of municipal valuers

Respondents agreed that municipalities do not have adequate skills to deal with the challenges presented by the MPRA, especially the small to medium sized municipalities that struggle to attract skilled personnel. Respondents mentioned that municipalities need to have some requisite skills, however, currently most municipalities do not have enough skills to deal with the necessary challenges at hand and to maintain the valuation roll as well as implementation of the MPRA. It was also mentioned that due to this, most municipalities outsource the valuer function but some have in-house valuers.

Furthermore, respondents pointed out that municipalities experience challenges in respect of the supply chain management processes for acquisition of a new valuer. In some cases, management sometimes has to re-advertise the tender to hire a valuer as many as three times.

6.2.6 Suggestions that would improve implementation of MPRA

Respondents provided suggestions as to how the municipalities could address some of the problems faced in implementing the MPRA. It was suggested that provincial government, together with municipalities, should embark on public awareness and outreach programmes, and on training on the MPRA for both the public, councillors and municipal staff. One respondent stated that:

> One of the shortcomings of government is failure to support municipalities in implementation of important legislations such as MPRA through training and awareness campaigns. I would love to see government creating a grant funding in support of training and development around the Municipal Property Rates Act No 6 of 2004.

Respondents also agreed that there is a need for funding for development of valuation roll. One respondent mentioned that: “I think it’s the responsibility of municipalities to conduct public awareness and outreach programs as well as training about MPRA No 6 of 2004, particularly in development of valuation roll.” Respondents also mentioned that municipality would like to see councillors coming on board in encouraging customers to pay their rates and that in order to do that, municipalities require funding from national government.

6.3 Quantitative results

6.3.1 Profile of respondents

Thirty (30) respondents returned the questionnaire, a response rate of 60 percent. Baruch (1999:429), using a sample of 175 published studies, found a response rate of 55.7 percent with a standard deviation of 19.7. This means that the response rate of this study is within the average response rate achieved by other studies. In terms of the response rate by location, 27 percent were from the City of Matlosana Local

Municipality, 48 percent from JB Marks and 25 percent from Maquassi Hills Local Municipality. Females constituted 48 percent of the total number of respondents. In terms of education level of the participants, 10 percent had less than matric, 39 percent had a diploma, 48 percent had a degree, 3 percent had a masters and above, and none had matric. The average years of experience was 10 years with a standard deviation of 5.2, a minimum of 1.8 years and a maximum of 20 years. Lastly, in respect of job levels of the four participants, 12 percent were senior managers, 48 percent were in middle management, 25 percent were lower-level staff and 15 percent were councillors.

6.3.2 Employee perceptions about MPRA

Table 3 summarises the perceptions of municipal employees about the MPRA. For the purpose of presentation of the results, table 3 is split into two. The questions that were asked are indicated in the first column.

Table 3. Summary results for employee perceptions about the MPRA 2004

Question/ Statement	Response				Chi-Square			
	Yes	No	Not sure	Don't know	Location	Gender	Education	Experience
The municipality developed a new valuation roll	83	0	17	0	0.578 (NS)	0.689 (NS)	0.889 (NS)	0.702 (NS)
Does your municipality have a municipal valuer?	90	3	7	0	0.381 (NS)	0.274 (NS)	0.921 (NS)	0.856 (NS)
The municipality reconciles the general valuation and financial system quarterly to evaluate if there are variances.	69	0	31	0	0.345 (NS)	0.785 (NS)	0.966 (NS)	0.432 (NS)
The municipality has an internal control process to rectify variances when they are identified.	76	0	24	0	0.102 (NS)	0.746 (NS)	0.529 (NS)	0.715 (NS)
The municipality reports to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll	72	0	28	0	0.327 (NS)	0.910 (NS)	0.239 (NS)	0.062 (*)
The municipality has rates policy in terms of the Municipal Property Rates Act 2004?	83	3	10	3	0.399 (NS)	0.706 (NS)	0.289 (NS)	0.737 (NS)

Question/ Statement	Response				Chi-Square			
	Yes	No	Not sure	Don't know	Location	Gender	Education	Experience
The rates policy is in line with section 3 of the Municipal Property Rates Act 2004	82	14	0	4	0.908 (NS)	0.829 (NS)	0.216 (NS)	0.680 (NS)
The rates policy makes provision for property categorisation	55	0	38	7	0.244 (NS)	0.614 (NS)	0.326 (NS)	0.535 (NS)
The municipality valuation complies with section 19(1) (a) of the Municipal Property Rates Act 2004 which prohibits levying of different rates on residential properties except in certain specific circumstances	62	0	31	7	0.458 (NS)	0.593 (NS)	0.146 (NS)	0.644 (NS)
The municipal rates policy makes provision for differentiations between categories of non-residential properties.	52	0	45	3	0.809 (NS)	0.487 (NS)	0.146 (NS)	0.448 (NS)

Table 3 (cont.). Summary results for employee perceptions about MPRA

Question/ Statement	Response				Chi-Square			
	Yes	No	Not sure	Don't know	Location	Gender	Education	Experience
The rates policy provides for section 9 of the MPRA 2004 which makes provision of properties' multipurpose usage	48	3	45	3	0.138 (NS)	0.380 (NS)	0.014 (**)	0.431 (NS)
The municipality developed municipal rates by-law in terms of section 6 of the Municipal Rates Act 2004 and section 13 of Municipal System Act.	55	0	45	0	0.211 (NS)	0.349 (NS)	0.182 (NS)	0.425 (NS)
The by-law underwent consultation before adoption by council	90	0	10	0	0.931 (NS)	0.591 (NS)	0.203 (NS)	0.841 (NS)

Question/ Statement	Response				Chi-Square			
	Yes	No	Not sure	Don't know	Location	Gender	Education	Experience
The By-Law was published in the provincial government gazette.	97	0	3	0	0.962 (NS)	0.334 (NS)	0.014 (**)	0.923 (NS)
The municipality passed a resolution for promulgation of levying rate	93	0	7	0	0.351 (NS)	0.960 (NS)	0.204 (NS)	0.909 (NS)
The resolution for promulgation of levying rate was published in the Provincial Gazette	90	0	10	0	0.455 (NS)	0.591 (NS)	0,203 (NS)	0,851 (NS)
The resolution for promulgation of levying rate was published in the Provincial Gazette 30 days prior to implementation of the levying rate	83	0	10	7	0.665 (NS)	0.755 (NS)	0.292 (NS)	0.763 (NS)
I am aware of the new amendments of the MPRA of 2004	90	3	3	3	0.937 (NS)	0.111 (NS)	0.020 (**)	0.850 (NS)
Does the new amendment bring about a difference and resolve challenges in the Local Government?	93	0	3	3	0.946 (NS)	0.815 (NS)	0.092 (*)	0.991 (NS)

In the analyses of the participant's response on their perception or views on the level of knowledge and awareness of the MPRA, participants were asked to indicate "yes", "no", "not sure" or "don't know". As can be seen in table 3, a significant proportion of employees responded "no" to the question of level of awareness or knowledge of the MPRA. Most of those who did not respond with a "yes" responded with either "not sure" or "don't know". This is a clear indication of the need for capacity building within the municipalities.

A Chi-square statistic was applied to compare the size of discrepancies between the expected results and the actual results, given the size of the sample and the number of variables in the relationship. In this instance, four variables were selected to test whether they have significant influence on the responses to the questions. These were location (the municipality the employees belonged to), gender, level of education and the number of years they have worked for the municipality as a proxy for experience.

In all questions, both location and gender were not significant. This means that the issues identified in the questions are common to all municipalities in the sample.

Given the small and non-random sample, it is not possible to generalise this finding to all municipalities in South Africa. However, it can certainly be posited that this is the case. The responses are also not a function of gender, which provides even more evidence of the blanket applicability of the issues raised in the questions. Broadly, the non-significance of the Chi-Square test together with the generally high incidence of the "yes" response, is evidence of the blanket applicability of the issues raised in the statements/questions. However, for the statement that "The municipality reports to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll", experience was significant at 0.1; for "The rates policy provides for section 9 of the MPRA 2004 which makes provision of properties' multipurpose usage" , education was significant at 0.05; for "The By-Law was published in the provincial government gazette", education was significant at 0.05; for "I am aware of the new amendments of the MPRA of 2004", education was significant at 0.05 and for "Does the new amendment bring about a difference and resolve challenges in the Local Government?", education was significant at 0.1. These warrant further analysis and explanation.

6.3.3 Further analysis of the significant relationships

6.3.3.1 The municipality reports to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll relative to municipal employee experience

For the statement, "The municipality reports to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll" experience was significant at 0.1. As represented in figure 18, 72 percent responded "Yes" to this statement. For further analysis, years of experience were divided into categories: 1 = 1 to 5 years, 2 = 5 to 10 years, 3 = 10 to 15 years, 4 = 15 to 20 years and 5 = 20 to 25 years. Twenty-four (24) percent of the respondents were in category 1, 24 percent in category 2, 38 percent in category 3, and 14 percent in category 4. Figure 18 also shows that among those who responded "yes", 100 percent of those whose experience was between 1 to 5 years fell in this category; for those who had 15 to 20 years of experience, just above 20 percent said "yes" to the statement. In fact, figure 18 shows that there is an inverse relationship between responding "yes" to the statement that "The municipality reports to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll" and the years of experience. This suggests that there is something that the more experienced employees understood about the municipalities that the less experienced might not have understood regarding reporting to Treasury and CoGTA about the valuation roll. This finding points to the value of experience in understanding the relationship between municipalities, and Treasury and CoGTA in terms of reporting about the valuation roll. The inverse relationship, which is beyond the scope of this study, requires further investigation.

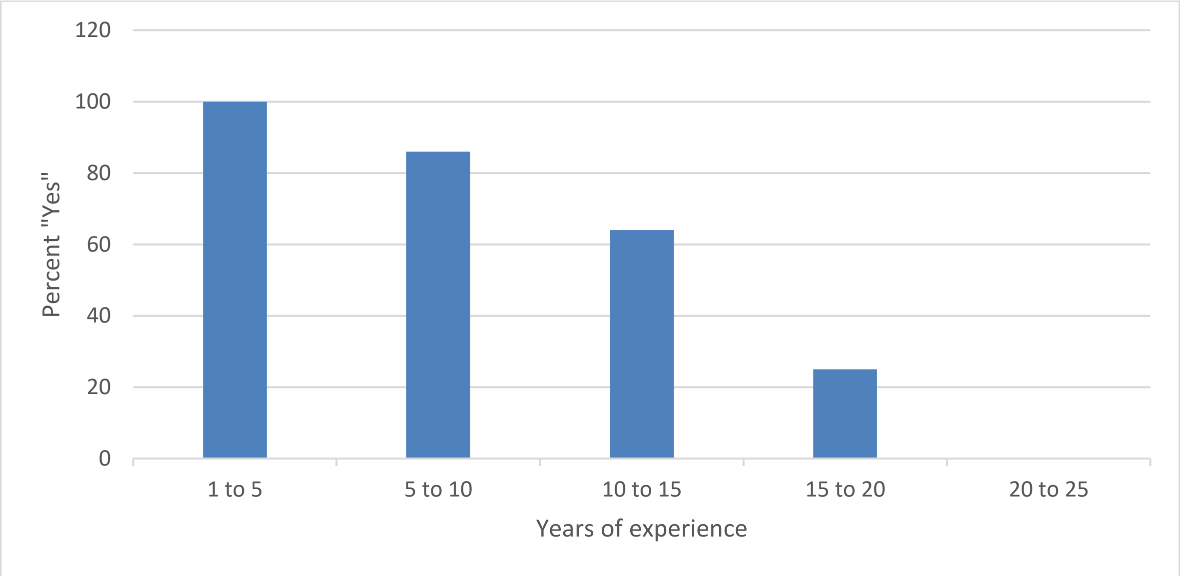

Figure 18. Summary of "Yes" responses to the statement: "The municipality reports to the Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll"

6.3.3.2 The rates policy provides for section 9 of the MPRA 2004 which makes provision for properties' multi-purpose usage Vs Education

To the statement "The rates policy provides for section 9 of the MPRA 2004 which makes provision for properties' multi-purpose usage", table 3 shows that 48 percent responded "Yes", 3 percent responded "No", 45 percent responded, "Not sure" and 3 percent responded, "Don't know". The fact that 48 percent could not respond "Yes" or "No" suggests a lack of knowledge about the provision in the MPRA regarding section 9 and the provision for properties' multi-purpose usage. The Chi-

Square test shows that the association between the responses to this statement and education is significant at 0.05. Since there is an indication of lack of knowledge, it was therefore necessary to further analyse the distribution of those who responded, “Not sure”. Of those who responded, “Not sure”, 15 percent had less than matric, 46 percent had a diploma and 39 percent had a degree. Figure 19 shows that 100 percent of those who had less than matric responded, “Not sure”; just above 50 percent of those who had a diploma responded, “Not sure” and just under 40 percent of those with a degree responded, “Not sure”. This shows that there is an inverse relationship between the uncertainty with the statement and the level of education, wherein those with lower education showed more uncertainty than those with higher education. This is evidence of the importance of education in understanding the issues related to the MPRA. The finding is evidence of the fact that the employees need more information on the MPRA provision of multi-purpose usage and that the need for providing this information increases with lower education. This is quite a powerful statement regarding the need for municipalities to set the lowest level of education at which they hire taking into consideration whether employees will be able to understand important issues like the MPRA.

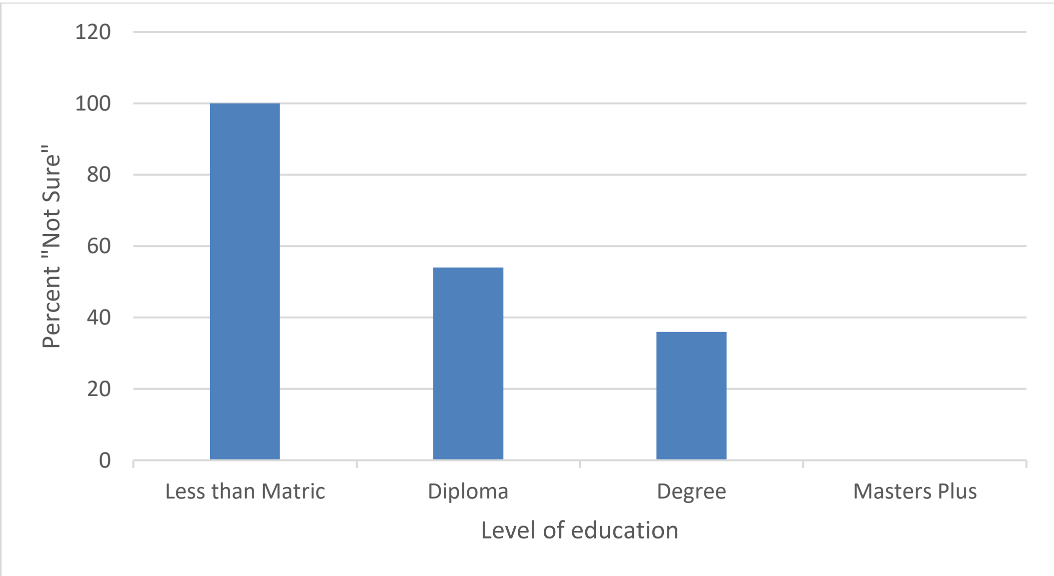

Figure 19. Summary of "Not sure" responses to the statement, "The rates policy provides for section 9 of the MPRA 2004 which makes provision for properties' multiple purpose usage"

6.3.3.3 The by-law was published in the provincial government gazette Vs Education

Table 3 shows that 97 percent of the respondents answered "Yes" to the statement, "The by-law was published in the provincial government gazette". Table 4 shows the distribution of the respondents by level of education and highlights that only those with less than matric had responded, "Not sure".

Table 4. Summary of responses to the statement, "By-Law was published in the provincial government gazette"

Level of education	Yes	Not sure	Total
Less than matric	2	1	3
Matric	0	0	0
Diploma	11	0	11
Degree	14	0	14
Masters and above	1	0	1
Total	28	1	29

The Chi-Square shows that the association between the responses to this statement and level of education is significant at 0.05. This is indicative of how accessible the information regarding the publication of by-laws in the provincial government gazette is across all the education levels. However, it is also important to note that it was only in the lowest education level category that a "Not sure" response was recorded.

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6.3.3.4 I am aware of the new amendments of the MPRA of 2004 Vs Education

Table 3 shows that to the statement, "I am aware of the new amendments of the MPRA of 2004", 90 percent responded "Yes" and responses were 3 percent each for "No", "Not sure" and "Don't know". The association between these responses and education is significant at 0.05, thus further analysis of those who responded "Yes" was warranted. Of those who responded with a "Yes", 8 percent had less than matric, 35 percent had a diploma, 54 percent had a degree and 4 percent had a Masters and above. Figure 20 shows that for those who had less than matric, just above 25 percent responded "Yes", of those who had a diploma, just above 80 percent responded "Yes" and for both of the categories of those who had a degree and those who had a Masters and higher, 100 percent responded “Yes”.

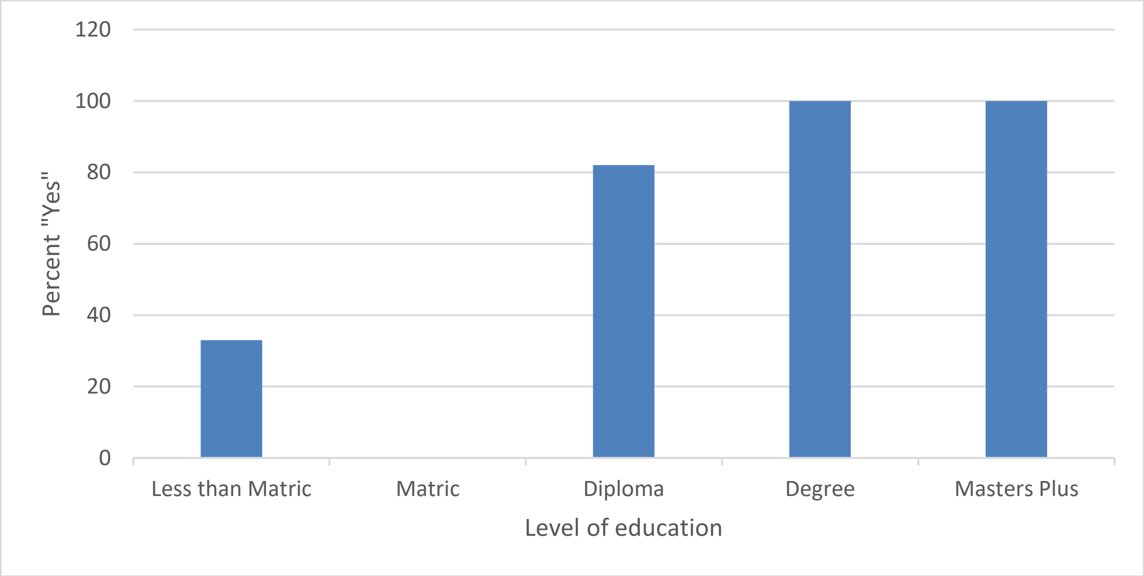

Figure 20. Summary of "Yes" responses to the statement, "I am aware of the new amendments of the MPRA 2004"

Figure 20 shows that there is a positive relationship between the likelihood of responding “Yes” to the statement and the level of education, with those with higher education more likely to respond “Yes”. This means that the more respondents are educated, the more they are aware of the new amendments of the MPRA. This, again, points to the ability of those with higher education to understand the issues of MPRA.

6.3.3.5 Does the new amendment bring about a difference and resolve challenges in the Local Government? Vs Education

Table 3 shows that to the question, “Does the new amendment bring about difference and resolve challenges in the Local Government?”, 93 percent responded “Yes” and 3 percent was recorded for both “Not sure” and “Don’t know” options. The association between these responses and education is significant at 0.1. Accordingly, it was necessary to further analyse the “Yes” responses, in relation to education. Of those who responded “Yes”, 7 percent had less than matric, 41 percent had a diploma, 48 percent had a degree, and 4 percent had a masters and above. Figure 21 shows that of those with less than matric, just under 60 percent responded, "Yes", of those who had a diploma, 100 percent responded "Yes", of those who had a degree about 95 percent responded, "Yes" and of those who had a masters and above, 100 percent responded "Yes".

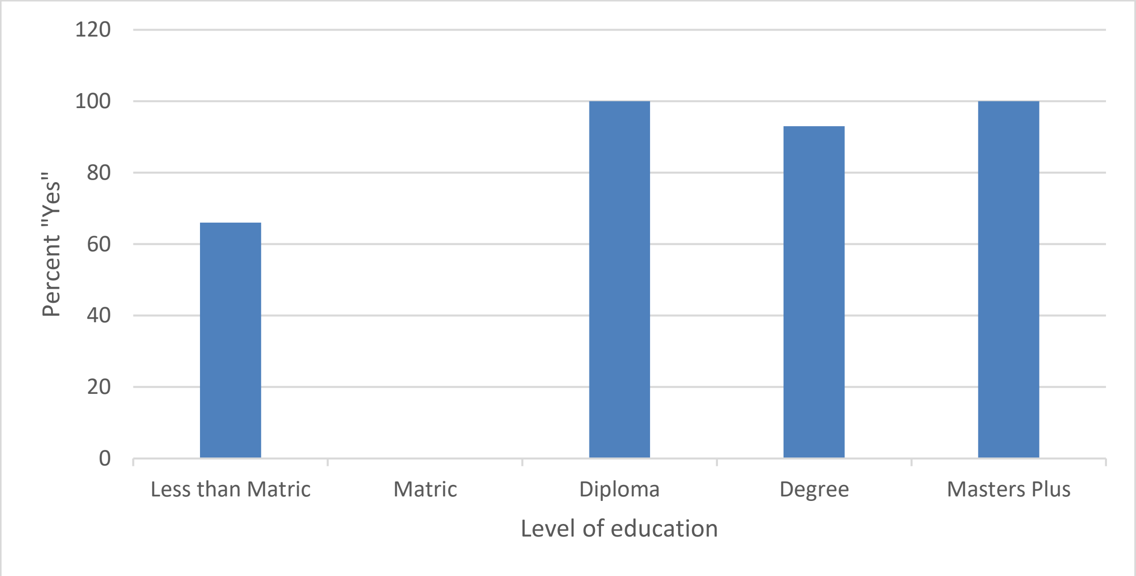

Figure 21. Summary of "Yes" responses to the question, "Does the new amendment bring about difference and resolve challenges in the Local Government?"

Although observably weak, there is a positive relationship between the likelihood of responding "Yes" and the level of education. This, again, demonstrates a better understanding of the issues of the MPRA by those who are more educated.

6.4 Conclusion

Acquiring the services of a municipal valuer and the administration, maintenance and/or updating of the municipal valuation roll was identified as a problem. The inadequacy of valuation skills either through lack of capacity, understaffing or lack of experience were also identified as problems. This results in the valuation roll not being at the operational level where it should be and results in loss of revenue. The implementation of agricultural property rates was also cited as a problem. This was also exacerbated by the fact that the amalgamation process left some unanswered questions regarding land. Furthermore, the lack of understanding of the MPRA by communities was cited as a serious problem affecting the implementation of the MPRA. While more challenges are raised in the literature, it appeared as though the respondents focussed on the most immediate challenges associated with the implementation of the MPRA.

These challenges resulted in loss of revenue for the municipality because sometimes the municipality could not bill a property for four years or when the owner is disputing the property rates, resulting in billing at the lower rate which was used prior to the introduction of the MPRA.

Some suggestions were offered to improve performance on the implementation of the MPRA provisions. Regarding the lack of skills for the valuer and the need for maintaining the valuation roll, it was suggested that a hybrid approach could be used where an experienced valuer could be hired to work with and capacitate an in-house valuer and assistants. It was also suggested that provincial government, together with municipalities, should embark on public awareness and outreach programmes, and on training on the MPRA to both public and municipal staff. The public awareness programmes, it was suggested, should be funded by National Treasury. It was also suggested that National Treasury could provide funding for the development of the valuation rolls.

The quantitative analysis results showed that the issues experienced by the municipalities, which were arrived at by utilising statements and questions, are not a function of location or gender. This suggests that the issues and challenges are experienced in a blanket manner across all municipalities in the sample. Some specific relationships were identified from the quantitative results. For instance, understanding of some of the issues regarding the implementation of the MPRA by the municipal staff is a function of their level of education. This implies that the municipalities should consider the level of education of their employees in their hiring processes. Experience was also a factor influencing understanding of issues; however, experience can always be gained on the job.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

The objectives of this study were to determine the major sources of revenue for the local municipalities in the Dr Kenneth Kaunda District (City of Matlosana, JB Marks and Maquassi Hills); to determine how the proportional contribution to revenue by property tax has varied over time, especially after the introduction of the MPRA 2004; to identify any further challenges faced by the municipalities in implementing the MPRA 2004, besides those identified in literature; to determine how the challenges faced by municipalities in the implementation of the MPRA 2004 affect the revenue stream of the municipalities; and to analyse the challenges and recommend potential solutions to alleviate the situation. This chapter will report the findings of this study in relation to these objectives and share some recommendations based on the insights obtained from the research.

7.2 The Major Sources of Revenue for the Municipalities

The analysis shows that the primary sources of revenue for Dr Kenneth Kaunda District – and indeed for all municipalities in South Africa – are local government equitable share grants, capital grants, property rates and trading services (electricity, water and refuse collection). Over the period 2010 to 2020, total revenue in Dr Kenneth Kaunda increased by 66 percent. All constituent components of revenue in Dr Kenneth Kaunda district; namely, equitable shares, capital grant, property rates and services, have experienced increasing trends, although with some variations and fluctuations. The highest increase has been in revenue derived from services. Although this increase requires further investigation, it could be as a result of an improvement in service delivery or an improvement in collection for services delivered or both. Services also contribute the most to revenue in the City of Matlosana and JB Marks local municipalities, whereas capital grant is the highest contributor to revenue in Maquassi Hills. This shows that the Maquassi Hills Local Municipality has a narrow revenue base for those revenue contributors that are based on collection, like property tax and services. As a direct result of this, Maquassi Hills gets a proportionately larger contribution from capital grant than the other municipalities that have broader revenue bases that are based on revenue exchange transaction collections, i.e. (revenue collection on electricity, water and refuse removal).

7.3 The Proportional Contribution to Revenue by Property Tax Trends

Property rates contributed an average of 13 percent to total revenue in Dr Kenneth Kaunda District over the period 2010 to 2020. For the three local municipalities (the City of Matlosana, JB Marks and Maquassi Hills) property taxes contributed in average, 16 ,11 and 14 percent respectively, to total revenue over the same period. The percentage contribution of property tax revenue to total revenue for the City of Matlosana, JB Marks and Maquassi Hills Local Municipalities for the period 2010 to 2020 has not varied much. Over the period 2000 to 2019, property taxes for the North-West Province increased by about 217 percent whereas in Dr Kenneth Kaunda District the increase was about 284 percent. The pattern of increase in property taxes in North-West Province and Dr Kenneth Kaunda District is very similar. However, it is not easy to isolate whether this increase was a result of implementing the provisions of the MPRA 2004, as will be explored further below.

For the period 1998-2019, property tax revenue for Dr Kenneth Kaunda District municipalities, the City of Matlosana, JB Marks and Maquassi Hills local municipalities increased by about 300 percent, 265 percent, 382 and 435 percent, respectively. This shows that over this period, property tax increased tremendously, close to a threefold and in some cases more than threefold. Some of the drivers of the increases in property tax revenue include, but are not limited to, the general expansion in the local economies in these municipalities, fuelling demand for property, which means many people and developers bought and constructed properties within the municipalities. For instance, the number of properties billed by the City of Matlosana, JB Marks and Maquassi Hills local municipalities increased by 154 percent, 224 percent, 93 percent and 110 percent respectively, showing an increase in the property rates base. In the City of Matlosana, there were mining developments which also took place during this period. Secondly, property taxes proceeds also increased when the municipalities introduced new general valuation rolls and also when municipalities sharply increased rates and tariffs. This means that implementing the MPRA 2004 and its provisions is partly responsible for the increase in property tax revenue. However, the proportionate distribution of the increase in property tax revenue among the various drivers is not known. Knowing this would contribute significantly to decision-making for municipalities.

7.4 Further Challenges Faced by the Municipalities in Implementing the MPRA 2004, not Identified in Literature

The challenges associated with the implementation of the MPRA 2004 identified in the literature include the following:

1. Some of the properties that were not rateable before the MPRA 2004 became rateable, causing a lot of controversy and misunderstanding, particularly in the communities but also among the municipal staff.
2. The changes in rateable properties were unpopular with communities.
3. The MPRA 2004 implementation required good planning since the transition to the new Act could be costly and could be distressing to both ratepayers (because they would have to pay more in property taxes) and Council (because they would have to administer changes which they were aware that are unpopular). However, many municipalities lacked the skills to implement such planning.
4. The requirements of the implementation of the MPRA 2004 posed risks to municipalities. These included, among others:
    a. The accuracy of the rolls depends on the availability of sectional title properties owners' addresses which may not have been readily available due to poor compilation of the valuation roll or lack of adequate skills and knowledge thereof.
    b. Both over and under estimation of the tariff may result in unreasonable properties valuation rates.
    c. Specific information, such as required for the implementation of exemptions, reductions or rebates, may not be available.
    d. There are some properties which are not included in the property roll because they may be in the process of transfer at the time of compiling the rolls.
    e. Municipalities need to address objections but may not have sufficient staff to address them.

5. Municipalities were slow to understand all the changes that were needed to implement the MPRA 2004. For instance, the MPRA introduced differences in the approach to the rates paid by different categories of ratepayers, for example, those who owned the biggest houses in a suburb compared to those who owned vacant stands. This meant that traditional valuation methods could no longer be used.
6. The Department of Cooperative Governance and Traditional Affairs, in 2007, emphasised the importance of development of municipal rates policy prior to appointment of valuers.

In addition to the challenges identified in literature, this study further identified the following as posing serious challenges to the implementation of the MPRA 2004 by municipalities:

1. Departments are generally understaffed and SCM processes sometimes present challenges in hiring valuers.
2. Inadequacy of valuation skills. This means that planning for the valuation roll is not effected and/ or the valuation roll is not completed properly, and if the valuation roll is not properly carried out, the challenge posed is that the municipality will not be in a position to levy adequately for those properties for a period of four years.
3. The culture of leaving positions vacant for long periods of time.
4. Communities, especially farmers, are contesting both land and rebates provisions resulting from the implementation of the MPRA 2004 by municipalities. Lack of knowledge on the part of communities, and lack of understanding of the provisions of the MPRA 2004 and how they affect communities is a major challenge.

7.5 How Implementation Challenges Affect the Revenue Stream of the Municipalities

The qualitative research findings revealed that the challenges with the valuation roll directly affect revenue for the municipalities. A municipality cannot bill properties for the whole four-year period if the valuation roll is not properly developed. Therefore, municipalities experience substantial loss of revenue. Loss of revenue also occurs during protracted court cases or suspension of levying the property while waiting for the objection and appeal to be ventilated before the claimant can start paying the rates. In the case where a customer objects to the valuation process, if the municipality is not able to deal with that objection, the customer does not pay for services rates until that objection is ventilated.

The findings also showed that misunderstanding of the MPRA 2004 caused some resistance from community members, who then bring objections to the valuation process. The objections result in loss of revenue because once a customer disputes the municipal account, they are allowed to stop paying their account. In addition, if the valuation roll is not updated, the municipality cannot bill on the latest figures, however, it will continue to bill on the previous figures which will cause the municipality to receive understated revenue on a monthly basis.

Furthermore, revenue collection from the agriculture segment or farmers is severely affected because farmers feel that they need discounts. This is worsened by the fact that the agricultural segment of the valuation roll came into effect since 2014, after the amendment of the property rates act. For this reason, the municipalities still experience resistance from the agricultural segment of the rates. Despite the fact that it is well known that the challenges with the MPRA 2004 result in loss of revenue, there is no quantification of how much municipalities lose. So, there is no municipality that knows how much it is losing due to the challenges of implementing the MPRA 2004. Nonetheless, the cases reviewed show some of the instances where municipalities lost revenue.

7.6 Summary of Quantitative Research Findings and Their Implications

The quantitative analysis results suggest that the implementation challenges experienced by the municipalities are not a function of specific location or the gender of respondents. The challenges experienced appear to be common across all municipalities sampled. This points to the pervasive nature of the challenges associated with the implementation of the MPRA 2004. Some specific relationships were identified from the quantitative results. Understanding of the issues pertaining to implementation of the MPRA 2004 by the municipal staff is a function of their level of education in the field. This implies that the municipalities should consider the level of education of employees in their recruitment process. It was also discovered that the majority of municipal officials in the field of property rate and general valuation development do not have experience, yet experience was one of the factors influencing understanding of the issues. However, even though experience should be considered as a factor in the hiring process, it is important to note that experience can always be gained on the job.

7.7 Recommendations

The following are suggested for addressing some of the challenges faced by municipalities in the implementation of the MPRA 2004:

1. Municipalities are not good at learning from previous experiences; therefore, a concerted effort should be made by municipalities to compile lessons learned from previous experiences so that this can inform both policy and the generation of solutions. There could also be an immediate requirement to include a section on lessons learned in the annual reports of the municipalities. This will assist both municipal staff and policy makers not to miss opportunities for learning so that they can improve their decision making, especially in relation to the implementation of the MPRA 2004. The court cases arising from the implementation of the MPRA 2004 and the resistance from the communities, e.g., farmers, in relation to the implementation of the MPRA 2004, offer great opportunities for deriving lessons learned, as examples.
2. In respect of valuers, municipalities should implement a hybrid rates unit within their establishments, whereby they appoint a private and experienced municipal valuer, and for co-ordination and maintenance of the municipal valuation roll, have an in-house valuer and assistant valuers. This approach will assist the municipality to administrate and implement the MPRA 2004 accordingly.
3. The real solution to the problem of property valuation lies in public engagement, and stakeholder outreach, training and awareness, particularly in the agricultural and farming category. In some municipalities, public engagement and participation is in progress and municipalities are hoping to complete that process any time. However, this process should be ongoing. During the process

of public engagement, all written materials including fliers and booklets that may pose the risk of being misinterpreted and/or misunderstood, need to be explained thoroughly. Municipalities should conduct surveys to clearly understand their clients in terms of their levels of comprehension so that written material can be disseminated and pitched at the correct level for different target groups. It may be needed to translate some of the written information into local languages for better understanding among communities, as their understanding depends on the education of the public.

4. Within the community engagement programme, regular consultation of municipal customers is key to avoid unnecessary challenges that interfere with municipal revenue. Therefore, education of the customers about the MPRA 2004 needs to be infused into the consultative process.
5. Municipal management should plan well in advance and involve the public in everything they do, particularly on issues that involve the public's money or properties such as the MPRA 2004. This is not a public engagement issue but a planning issue with respect to the municipalities. Such planning is lacking and could have been learned if reflection on lessons learned was a culture in municipalities.
6. The results clearly indicated that education and experience are the two important variables in understanding issues related to the MPRA 2004. Experience comes with time, but education is a variable that a municipality can control both externally (at hiring) and internally (through staff training and refresher programmes). There are sections and units in the municipalities that extensively require training which would impact on their performance. For instance, the Rate Management Unit requires training on the MPRA 2004 in order to better address the challenges within its implementation process.

It is acknowledged that among these recommendations, there are some that require forward looking planning. However, there are some that could be immediately implemented in order to improve the performance of municipalities in relation to MPRA 2004.

7.8 Areas for Further Research

This study showed that there is a dearth of empirical studies on the MPRA 2004 in general and specifically on the challenges faced by municipalities in its implementation. In this study, most of the literature reviewed on the MPRA 2004 is not peer reviewed and is, therefore, grey literature. Even though this study addressed some of the gaps that exist in the literature about the MPRA 2004, it still raised more questions than it provided answers for. Some specific areas that need further research include but are not limited to:

1. The drivers of the variation in the contribution of the sources of revenue for municipalities need further investigation.
2. It is important to understand the reason for the highest increase in revenue that has been derived from services and to identify whether there are any lessons to be learnt for increasing revenue from other sources.
3. It is important to conduct a study that can determine whether the increase in property revenue experienced in North-West province and Dr Kenneth Kaunda District was a result of implementing the provisions of the MPRA 2004.
4. Property tax revenue has clearly increased over time given the different drivers. It is important to study and understand the proportionate distribution of the increase in property tax revenue for the different property tax revenue drivers. This would lead to informed policy and decision-making.
5. Losses of revenue to the municipalities due to the implementation of the MPRA 2004 are not quantified. Research needs to be conducted to quantify the losses resulting from the MPRA implementation or lack thereof.
6. Research should be conducted to identify and describe opportunities where lessons could have been learned by municipalities on the MPRA 2004 in general and specifically in relation to the MPRA 2004 implementation. This could take the form of a compendium comprising what the opportunity was, how it was missed, what lessons could have been learned and how that could have informed policy. This will be invaluable in guiding decision-making in municipalities and given the nature of the challenges experienced in the implementation of the MPRA 2004, there exists a plethora of such opportunities.

7. The link between the MPRA 2004 and the various planning legislation applicable in South Africa can also be explored in a study.

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9. Appendices

9.1 Appendix 1: Semi-structured interview guide.

1.During implementation of your MPRA, did your Municipality experience the following challenges.	
2. How does the challenge affect the revenues of the municipality?	
3. What do you think are potential solutions to the challenge identified above?	
5. Has your Municipality faced legal challenges regarding the MPRA process in the past 10 years?	
6. Did your Municipality managed to resolve the matter internally or the matter was referred to provincial appeal Board?	
7. How long or how much time does your Municipality take to resolve MPRA disputes?	
8. How much time does your Provincial Appeal Board take to resolve MPRA matter?	
9. Do you think all those structures created by the act assist in resolving issues related to MPRDA in totality?	
10 Do you think Council supports administration to implement MPRA?	
11. Do you think their adequate skills within the institution to properly implement the act?	

12. When was your last appointment of the Municipal Valuer?	
13. How was your public participation went about given recent land question in the country?	
14. Is the valuer an employee or contracted services provider?	
15.If it was contracted service provider was the procurement process when smooth without SCM challenges	
16. Did your Municipality requested extension from the MEC of CoGTA after the valuation roll expiry of the validity implementation period in the past 10 to 15 years?	
18. Do you think the provincial and National CoGTA assist and support municipalities enough to implement the act?	
19.Do you think there is adequate support from SALGA in assisting Municipalities to unlock challenges around MPRA implementation?	
20.Is there any suggestion would you like to provide to assist in appropriate implementation of the act?	

9.2 Appendix 2: Structured questionnaire

Research topic:
ANALYSIS OF THE CHALLENGES FACED BY MUNICIPALITIES IN IMPLEMENTING THE MUNICIPAL PROPERTY RATES ACT NO 6 OF 2004: THE CASE OF KENNETH KAUNDA DISTRICT MUNICIPALITIES, NORTHWEST PROVINCE, SOUTH AFRICA

Please read the following statement carefully before completing the questionnaire. This questionnaire is meant to address the preceding project. It is to be completed by municipal employees It is meant to generate information on the challenges of implementing THE MUNICIPAL PROPERTY RATES ACT NO 6 OF 2004. The information provided will be used only for the purposes of this research and will be treated strictly confidentially, with no mention of names in the analysis. Please circle the appropriate.

I agree to complete the questionnaire and do so in a completely voluntary manner. I understand that my responses will be kept confidential.

I agree	Not I agree

1) What is your gender?

Male	Female	Other

2) What is your highest level of education?

Less than matric	Matric	Diploma	Degree	Masters and above

3) How long have you worked for the municipality? ______Years______Months

4) The municipality developed a new valuation roll

YES	NO	Not sure	Don't know

5) Does your Municipality have a municipal Valuer?

YES	NO	Not sure	Don't know

6) The municipality reconciles the general valuation and financial system quarterly to evaluate if there are variances.

YES	NO	Not sure	Don't know

7) The municipality has an internal control process to rectify variances when they are identified.

YES	NO	Not sure	Don't know

8) Do your municipality report to Treasury and CoGTA on a quarterly basis on the implementation of the valuation roll

YES	NO	Not sure	Don't know

9) How much time does provincial appeal board take to resolve referred disputes?

Less than 1 Year	1-3 Years	4- 6 Years	More than 6 years	Don't know

10) The municipality has rates policy in terms of the Municipal Property Rates Act 2004.

YES	NO	Not sure	Don't know

11) The rates policy is in line with section 3 of the act Municipal Property Rates Act 2004?

YES	NO	Not sure	Don't know

12) The rates policy makes provision for property categorisation.

YES	NO	Not sure	Don't know

13) The municipality valuation complies with section 19(1) (a) of the Municipal Property Rates Act 2004 which prohibits levying of different rates on residential properties except in certain specific circumstances

YES	NO	Not sure	Don't know

14) The municipal rates policy differentiates among categories of non-residential properties.

YES	NO	Not sure	Don't know

15) The rates policy provides for section 9 of the MPRA 2004 which makes provision of properties' multipurpose usage.

YES	NO	Not sure	Don't know

16) The municipality developed Municipal rate by- law in terms of section 6 of the Municipal Rates Act 2004 and section 13 of Municipal System Act.

YES	NO	Not sure	Don't know

17) The By –law underwent consultation before adoption by council.

YES	NO	Not sure	Don't know

18) The By-law was published in the provincial government gazette.

YES	NO	Not sure	Don't know

19) The municipality passed a resolution for promulgation of levying rate.

YES	NO	Not sure	Don't know

20) The resolution for promulgation of levying rate was published in the Provincial Gazette

YES	NO	Not sure	Don't know

21) The resolution for promulgation of levying rate was published in the Provincial Gazette 30 days' prior implementation of the levying rate.

YES	NO	Not sure	Don't know

22) I am aware of the new amendments of the MPRA of 2004

YES	NO	Not sure	Don't know

23) Does the new amendment bring about difference and resolve challenges in the Local Government? Please explain your answer

YES	NO	Not sure	Don't know

Thank you!