

CITY OF CAPE TOWN
SPECIAL RATING AREAS POLICY 2010/11

1. INTRODUCTION

- 1.1 This Policy for the establishing of Special Rating Areas must be read together with the Local Government: Municipal Property Rates Act, 6 of 2004 ("**MPRA**") and the City's Special Rating Area By-Law, as in force from time to time ("**the By-Law**").
- 1.2 All words and phrases defined in the MPRA and the By-Law have the same meaning in this Policy.
- 1.3 In the event of any conflict between the provisions of the By-Law and the provisions of this Policy, the By-Law prevails.
- 1.4 The Special Rating Areas Policy needs to be read together with the City's Rates Policy.

2. AIM OF THE POLICY

This Policy aims to –

- 2.1 set out Council's position on Special Rating Areas and the factors that will influence Council's decision whether or not to determine a particular Special Rating Area;
- 2.2 provide guidance to members of the local community and to decision-makers within the City in relation to the establishment of Special Rating Areas; and
- 2.3 strike an appropriate balance between facilitating self-funded community initiatives that aim to improve and/or upgrade neighbourhoods by –
 - 2.3.1 making use of Council resources and structures; or
 - 2.3.2 making use of a section 21 company structure;
 - 2.3.3 ensure commitment to good, fair and transparent governance by the managing body, by implementing a transparent process when

appointing service providers to improve and/or upgrade the Special Rating Area in the public areas and ensuring that these improved and/or upgraded services are not be provided on private properties.

3. **EXCLUSION**

This Policy does not apply to privately-owned property developments or to gated developments regulated in terms of the City's Gated Development Policy.

4. **POLICY STATEMENT**

4.1 The City's Rates Policy is based on the guiding principles of:

4.1.1 equity;

4.1.2 affordability;

4.1.3 poverty alleviation;

4.1.4 social and economic development; and

4.1.5 financial sustainability and cost efficiency.

4.2 The City regards Special Rating Areas as a potential tool for allowing it to fulfil its constitutional and statutory obligations to promote:

4.2.1 social and economic development; and

4.2.2 a safe and healthy environment, in a way which balances the guiding principles underlying its Rates Policy.

4.3 Special Rating Areas allow property owners within a geographical area to improve and upgrade their area by means of a property rate in addition to the standard property rate.

5. FACTORS CONSIDERED WHEN DETERMINING A SPECIAL RATING AREA

The Council will consider determining a Special Rating Area where the requirements of section 22 of the MPRA are complied with, including that –

- 5.1 the purpose of the Special Rating Area is to allow an additional rate to be levied on property in the defined area to raise funds for improving or upgrading the area;¹
- 5.2 the Special Rating Area will not be used to reinforce existing inequities in the development of the City's area of jurisdiction;²
- 5.3 the determination of the Special Rating Area is consistent with the City's Integrated Development Plan ("**IDP**");³
- 5.4 the majority of members of the local community who will be liable for paying any additional rate in the Special Rating Area have consented to its establishment;⁴
- 5.5 the procedural requirements of section 22 of the MPRA ⁵ are complied with, including the community consultation requirement, as well as the procedural requirements in Chapter 1 of the By-Law;
- 5.6 the proposed improvement or upgrade has been clearly and fully defined;
- 5.7 the proposed improvement or upgrade can be clearly and logically linked to a geographical area, the boundaries of which can be clearly determined;
- 5.8 there is evidence that it will be financially viable to use a Special Rating Area to raise funds for the proposed improvement or upgrade;
- 5.9 the City is satisfied with the institutional arrangements proposed in respect of the Special Rating Area; and

¹ Section 22(1)(b)

² Section 22(4)

³ Section 22(4)

⁴ Section 22(2)(b)

⁵ Section 22(2)(a)

- 5.10 ultimately, the decision whether or not to determine a Special Rating Area rests with the Council in its sole discretion.

6. APPLICABILITY OF THE CITY'S RATES POLICY AND OTHER POLICIES

- 6.1 The City's Rates Policy applies with the necessary changes to this Special Rating Areas Policy. In particular, and without limiting the generality of the foregoing, the exemptions, rebates and reductions set out in paragraphs 5.7 to 5.11 of the City's Rates Policy apply with the necessary changes in relation to the levying of an additional rate for Special Rating Area purposes.
- 6.2 Notwithstanding the provisions of paragraph 6.1 above, when the City grants a partial rebate as set out in paragraph 5.7 of the Rates Policy, the relevant property owner will be granted a full (100%) rebate in relation to the additional rate.
- 6.3 Other policies approved by the Council apply with the necessary changes, to the collection of additional rates in terms of the Policy, the By-Law and section 22 of the MPRA, including, but not limited to, the City's Credit Control and Debt Collection Policy.

7. PROCESS

- 7.1 The Special Rating Area establishment process must be completed by end of October of the financial year preceding the establishment of the Special Rating Area.
- 7.2 This Policy sets out –
- 7.2.1 the guidelines and requirements in relation to institutional arrangements for Special Rating Areas (paragraph 8);
- 7.2.2 the further requirements which must be followed (paragraph 9); and
- 7.2.3 the information which needs to be submitted to the City in order to motivate a request for determination of a Special Rating Area (paragraph 10).

8. INSTITUTIONAL ARRANGEMENTS

Section 22 of the MPRA is not prescriptive as to the structural arrangements which need to be put in place to administer a Special Rating Area. The two broad structural arrangements that will be supported by the Chief Financial Officer ("**CFO**") are the following:

8.1 Administration by the City

8.1.1 If the applicant chooses to use the City as its service provider the following must be adhered to:

- (a) the proposed improvements or upgrades must meet the aims and objects of this Policy;
- (b) the respective Council Directorate(s) must enter into an agreement to provide or manage the required services;
- (c) the necessary support for the proposed improvements or upgrades must be obtained;
- (d) the CFO must establish separate accounting and record-keeping systems in respect of the income derived from the additional rate as set out in the MPRA;⁶ and
- (e) the CFO will pay any expenses out of income generated by the additional rate.

8.1.2 The following provisions of the By-Law and the Policy are not applicable to Special Rating Areas administered by the City: sections 10, 11 and 12(4) to 12(8) of the By-Law and paragraph 8.2 of the Policy.

⁶ Section 22(3)(c)(i)

8.2 Administration by the section 21 company

- 8.2.1 If the applicant proposes that the services/upgrades will be managed and implemented by them, the City will require the ratepayers within the Special Rating Area to establish and participate in an appropriate structure to carry out planning, contracting, financial control and administrative functions within the Special Rating Area.
- 8.2.2 This option does not entail ratepayers *setting* the additional rate, which under law can only be done by the Council; instead, ratepayers will *recommend* the annual budget amount of the additional rate to the City by 31 January, with appropriate motivation including an Implementation Plan for the next financial year, and the Council will consider the recommendation during its budgeting process.
- 8.2.3 The "administration by the section 21 company" option gives a higher degree of control and autonomy to ratepayers and, from the perspective of ratepayers who have promoted the Special Rating Area, may be the preferred option.
- 8.2.4 Because this option places funds collected by government in the hands of the private sector, the requirements set out in this Policy must be met.
- 8.2.5 The functions of the structure would include:
- (a) determining the funding required each year and making a recommendation to the CFO that the funding be approved as part of the City's annual budget;
 - (b) appointing contractors to effect the improvement/s or upgrade/s; and
 - (c) receiving the additional rate collected by the City and expending the funds in accordance with the approved Business Plan.

8.2.6 Structural requirements when administered by the section 21 company:

- (a) before the City will consider allowing ratepayers in a Special Rating Area to carry out administrative and other functions in relation to the area, the Steering Committee must establish a section 21 company (company not for gain) as per the Companies Act, 61 of 1973 or as amended ("**the Companies Act**") for that purpose;
- (b) the founding documentation in relation to the structure established by ratepayers (the Memorandum and Articles of Association) must be approved in writing by the CFO;
- (c) the section 21 company must be managed under the Companies Act, and also comply with any other legislation as a result of the financial connection to Council; and
- (d) the section 21 company must give a written notice of the intention to hold an annual general meeting on the date stated in the notice by advertising in the local newspapers and in one English and one Afrikaans daily newspaper.

9. **APPLICATION FOR THE ESTABLISHMENT OF A SPECIAL RATING AREA**

The process for establishing Special Rating Areas as set out in Chapter 1 of the By-Law must be followed, whether the Special Rating Area is to be administered by the City or by a section 21 company.

10. **MOTIVATING A SPECIAL RATING AREA**

The business plan comprises of the following:

10.1 **The motivation report must contain –**

10.1.1 Introduction:

- 10.1.1.1 an executive summary of the improvement or upgrade proposed for the Special Rating Area as set out in the Implementation Plan;
- 10.1.1.2 an explanation of how the proposed improvement or upgrade is linked to the geographical area of the proposed Special Rating Area;
- 10.1.1.3 an explanation of why the proposed Special Rating Area will not reinforce existing inequities in the development of the City;
- 10.1.1.4 an explanation of how the Special Rating Area, if determined, will be consistent with the City's IDP;⁷
- 10.1.1.5 an explanation of the institutional arrangements proposed in relation to the Special Rating Area (including whether the applicants to the Special Rating Area are requesting that ratepayers carry out planning and administrative functions within the area, as contemplated in paragraph 8.2 of this Policy);
- 10.1.2 Mission;
- 10.1.3 Vision;
- 10.1.4 Goal;
- 10.1.5 A diagram clearly indicating the boundaries of the proposed Special Rating Area.;
- 10.1.6 Management;
- 10.1.6.1 whether the Special Rating Area is to be administered by the City or by a section 21 company;
- 10.1.7 Services;
- 10.1.8 Financial Structure:

⁷ The City's IDP is available on its website:

- additional rate calculation
- exemptions

- 10.1.9 A list of all rateable properties within the proposed Special Rating Area, contact details of all owners and the value of each property as set out in the Council's general valuation. Differentiation between categories of properties, as provided for in section 8 of the MPRA, must be considered;
- 10.1.10 Proof of the consent of the majority of the members of the local community in the proposed Special Rating Area who will be liable for paying the additional rate;
- 10.1.11 Proof of the notice of the public meeting or meetings contemplated in the By-Law
- 10.1.12 Minutes of the public meeting or meetings; and
- 10.1.13 Compilation date.

10.2 **Implementation Plan**

The Implementation Plan is a schedule of milestones to implement improvements or upgrades as per the motivation plan and must at least address the following:

- 10.2.1 Related goal;
- 10.2.2 Milestones;
- 10.2.3 Actions and tasks;
- 10.2.4 Have a start and finish date;
- 10.2.5 Assign responsibility;
- 10.2.6 Performance indicators.

10.3 The budget for the proposed improvements or upgrades must at least address the following:

10.3.1 an annual budget per line item commencing on 1 July of the first year and end on 30 June of the last year of the term; and

10.3.2 a budget split for the provision of improvements or upgrades between the different categories of properties.

10.3.3 Paragraph 13 of this Policy defines the financial controls required.

11. EXTENSION AND/OR RENEWAL OF TERM

In the event that a Special Rating Area seeks to renew the term over which it will operate or extend its boundaries, then the procedures set out in Chapter 3 of the By-Law must be followed and submitted by the end of October.

12. DISSOLUTION

The Special Rating Area may be dissolved by resolution of the Council, subject to the provisions of section 16 of the By-Law.

13. FINANCIAL CONTROL

13.1 As stated in the By-Law, the amount of any additional rate levied in a Special Rating Area is determined by the Council. The additional rate is imposed by the Council, is a debt owing to the City and is payable and collected in the same manner as other property rates imposed by the Council.

13.2 Before the City will pay over any additional rate collected to the governing body of the ratepayers' management structure, the management structure and the City must have concluded a written finance agreement regulating, amongst other things:

13.2.1 the mechanisms and manner of payment;

13.2.2 how the additional rate is to be held by the management structure;

- 13.2.3 any parameters relating to expenditure;
- 13.2.4 any obligations on the management structure to take out and maintain appropriate insurance.

14. COMMENCEMENT AND IMPLEMENTATION

- 14.1 Implementation of this Policy commences on 1 July 2010.
- 14.2 Where the City is legally empowered to do so, requirements set out in this Policy may be imposed as conditions attached to the determination of a Special Rating Area.
- 14.3 This Policy and its implementation must be reviewed annually.

15. COSTS

Unless otherwise agreed by the City Manager or his/her nominee, the City shall not be liable for any costs incurred by ratepayers within the relevant proposed Special Rating Area in respect of the implementation of the steps set out in this Policy and in the By-Law.

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