

ANNEXURE 3

SPECIAL RATING AREAS POLICY AND SPECIAL RATING AREAS ADDITIONAL RATE (INCL. CITY IMPROVEMENT DISTRICTS)

DEFINITIONS

In this Policy words or expressions shall bear the meaning assigned to them and, unless the context otherwise indicates –

- "additional rate"** means an additional rate contemplated in sections 19(1)(d) and 22(1)(b) of the Property Rates Act and in section 12(2) of this By-law;
- "applicant"** means any owner who makes an application for the determination of a special rating area in accordance with the SRA By-law Chapter 1, or if a management body is established in terms of section 10 any reference to **"the Applicant"** means the management body;
- "business plan"** means a motivation report, implementation plan and term budget as contemplated in section 10;
- "CFO"** means the Chief Financial Officer of the City, or his or her nominee;
- "City"** means the City of Cape Town established by Provincial Notice No. 479 of 2000 in terms of section 12 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);
- "Companies Act"** means the Companies Act 71 of 2008, as amended or replaced;
- "Council"** means the Council of the City;
- "majority"** means the majority of property owners as contemplated in section 22 of the Property Rates Act;
- "management body"** means the management body of a special rating area to be established in accordance with the provisions of section 2.1.3.2;

"owner"	has the meaning assigned to it in section 1 of the Property Rates Act;
"Policy"	means the Policy for the determination of special rating areas, or any other policy adopted by the Council in relation to special rating areas, as in force from time to time;
"Property Rates Act"	means the Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004);
"rateable property"	has the meaning assigned to it in section 1 of the Property Rates Act;
"special rating area"	means a special rating area approved by the Council in accordance with the provisions of section 22 of the Property Rates Act and section 8 of this By-law;
"steering committee"	<i>means the steering committee of a special rating area to be established in accordance with the provision of section 9.2.1;</i>
"term budget"	means the budget of the management body contemplated in section 6 of this By-law.

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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 ("**Property Rates Act**") 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 Property Rates Act 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 Policy should at all times be read together with the City of Cape Town's ("**the City**") Rates Policy.

2. AIM OF THE POLICY

2.1 This Policy aims to –

- 2.1.1 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;
- 2.1.2 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
- 2.1.3 strike an appropriate balance between facilitating self-funded community initiatives that aim to improve and/or upgrade neighbourhoods by –
- 2.1.3.1 making use of Council resources and structures; or
- 2.1.3.2 making use of a non-profit company ("NPC") structure as contemplated in the Companies Act 71 of 2008 ("the Companies Act"), which is referred to in the By-law as "the Management body";

- 2.1.4 ensure commitment to good, fair and transparent governance by the management body as defined in the By-law, 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 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 special rating area model is based on international best practice. It is aimed at preventing the degeneration of cities and towns and the consequential urban decay, and facilitating their upliftment, economic growth and sustainable development.
- 4.2 The purposes of a special rating area is to –
- 4.2.1 enhance and supplement the municipal services provided by the City;
 - 4.2.2 facilitate investment in the special rating area;
 - 4.2.3 facilitate a co-operative approach between the City and the private sector in the provision of municipal services;
 - 4.2.4 halt the degeneration and facilitate the upliftment of distressed business and mixed-use areas; and
 - 4.2.5 promote economic growth and sustainable development and in this way assist the Council in the fulfilment of its objects and developmental duties as set out in its Integrated Development Plan (**IDP**).

- 4.3 The City regards special rating areas as a potential tool for assisting it to fulfil its constitutional and statutory obligations to 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 Property Rates Act 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 IDP;³
- 5.4 residential special rating areas mean an area in which more than 40% (forty percent) of the rates base value consists of Residential Property as defined in the City's Rates Policy;
- 5.5 any residential special rating area must comply fully with the provisions of the By-law, save that, with reference to the majority support the applicant must provide written proof to the Council that owners of rateable property within the boundary of the special rating area who own not fewer than 60% (sixty percent) in number of such properties, approve the formation of the special rating area;

¹ Section 22(1)(b)

² Section 22(4)

³ Section 22(4)

- 5.6 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
- 5.7 the procedural requirements of section 22 of the Property Rates Act ⁵ as well as the By-law and the Policy are complied with, including the community consultation requirement, as determined by the CFO;
- 5.8 the proposed improvement or upgrade has been clearly and fully defined;
- 5.9 the proposed improvement or upgrade can be clearly and logically linked to a geographical area, the boundaries of which can be clearly determined;
- 5.10 there is evidence that it will be financially viable to use a special rating area to raise funds for the proposed improvement or upgrade;
- 5.11 the City is satisfied with the institutional arrangements proposed in respect of the special rating area; and
- 5.12 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 Policy. In particular, and without limiting the generality of the foregoing, the exemptions, rebates and reductions set out in paragraphs 5.7 to 5.12 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.

⁴ Section 22(2)(b)

⁵ Section 22(2)(a)

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 City's 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 Property Rates Act, including, but not limited to, the City's Credit Control and Debt Collection Policy.

7. **PROCESS**

7.1 This Policy sets out –

7.1.1 the institutional arrangements for special rating areas (paragraph 8);

7.1.2 the establishment principles (paragraph 9);

7.1.3 the information to be included in the business plan which needs to be submitted to the City in order to motivate a request for determination of a special rating area (paragraph 10); and

7.1.4 the annual requirements for Special Rating Areas (paragraph 11);

7.1.5 the amendment and/or extension of term for special rating area (paragraph 12 & 13);

7.1.6 the dissolution requirements which must be followed (paragraph 14);

7.1.7 financial arrangements (paragraph 15).

8. **INSTITUTIONAL ARRANGEMENTS**

Section 22 of the Property Rates Act 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 CFO are the following:

8.1 Administration by the City

Notwithstanding that special rating areas can be initiated and administered by the City in terms of section 22 of the Property Rates Act, the City does not initiate the establishment of special rating areas, but rather facilitates this process in accordance with paragraph 8.2 at the behest of the community pursuing the establishment of a special rating area.

8.1.1 If the applicant chooses to use the City as its administrative 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), representing the City, must enter into an agreement with the NPC 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 Property Rates Act;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 a NPC

- 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 (paragraph 14.1 of the Policy).
- 8.2.3 Councillors who are actively involved in pursuing and promoting the establishment of a special rating area must recuse themselves when Council considers the application for establishment of a special rating area.
- 8.2.4 The "administration by a NPC" 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.
- 8.2.5 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.
- 8.2.6 The functions of the structure would include:
- (a) determining the funding required each year (paragraph 14.2);
 - (b) appointing contractors to effect the improvement/s or upgrade/s (paragraph 2.1.4); and
 - (c) receiving the additional rate collected by the City and expending the funds in accordance with the approved business plan.

8.2.7 Structural requirements when administered by the NPC:

- (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 NPC in terms of the Companies Act, 71 of 2008 for that purpose.
- (b) the inaugural memorandum of incorporation of the NPC, must be aligned with the prescribed format determined by the CFO as per Annexure A.; any amendments must be approved by the CFO;
- (c) the NPC must be managed under the Companies Act, and also comply with any other legislation as a result of the financial connection to Council;
- (d) the NPC must have at least 3 (three) directors, each with specific portfolio(s) aligned with the business plan;
- (e) The Executive Mayor will appoint a councillor and one other councillor as an alternate representative to attend and participate, but not vote, at the meetings of the management body to ensure that the SRA implements its Business Plan and adheres to the IDP objectives.
- (f) the NPC must give a written notice to all the property owners within the special rating area of the intention to hold an annual general meeting on the date stated in the notice by advertising in one English and one Afrikaans daily newspaper and must also give notice in a community (local) newspaper to accommodate other official languages where applicable; and
- (g) a members' meeting must be convened within six months of the establishment of the NPC. The purpose of the members' meeting will be to:
 - (i) appoint directors;

- (ii) amend the NPC's memorandum of incorporation if required and with prior written consent of the CFO; and
- (iii) approve the following year's budget and implementation plan (paragraph 14.2).

9. ESTABLISHMENT PRINCIPLES OF A SPECIAL RATING AREA

- 9.1 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 NPC.
- 9.2 Initiation Phase
 - 9.2.1 The applicant must form a steering committee that is representative of property owners within the proposed special rating area.
 - 9.2.2 The Steering Committee must keep a comprehensive portfolio of evidence of the establishment process.
 - 9.2.3 The Steering Committee must meet with the CFO before commencing with the establishment process to ensure that the special rating area is the appropriate vehicle.
 - 9.2.4 All documents relating to the establishment process must be approved by the CFO before circulating them to the public.
 - 9.2.5 After the Steering Committee confirms in writing that they will engage in the pursuit of establishing a special rating area they must supply the City with a map depicting the boundaries of the special rating area.
 - 9.2.6 The City will extract a property database which the Steering Committee must verify as correct.
 - 9.2.7 After the City has prepared a total arrears profile of the area and is satisfied with the outcome thereof the Steering Committee may proceed with the establishment process.

- 9.2.8 All properties except municipal properties predominantly used for municipal purposes or properties exempted from paying property rates or receiving partial rates relief (paragraph 6.1) will form part of the property database of the proposed special rating area. 9.2.9
- 9.2.8 The Steering Committee will be required to conduct an urban management survey of not less than 20% of properties in the database (proportional split in terms of the usage code is required). A random sample of people within the area, which is not less than 25% of the property sample, would also be required. Where a reduction in the number of survey forms is required it may be motivated for consideration by the CFO.
- 9.2.10 The steering committee must consult with the respective City Directorate(s) regarding the current service(s) provided and the levels thereof as well as the SRA anticipated service(s) and level thereof.
- 9.3 First Public Meeting
- 9.3.1 The public meeting must be conducted in accordance with section 5 of the By-law.
- 9.4 Obtaining Support
- 9.4.1 Support may only be obtained after the Public meeting and on the consent form provided by the City.
- 9.4.2 All support forms must be filed and cross-referenced to the property database in terms of paragraph 9.2.6 of the Policy to verify the accuracy thereof.
- 9.4.3 Any property owner that wants to object to the establishment of a special rating area or to the provisions of the business plan can do so by indicating it on the consent form. The objector will be required to submit an objection letter as per paragraph 9.6 once an application for the establishment of a special rating area is submitted to Council.

9.5 Application

9.5.1 An application must be submitted in terms of paragraph 10 of this Policy.

9.5.2 The application must be advertised in terms of section 7 of the By-law and also set a date for a second public meeting to occur not more than twenty days or less than seven days before the objection period closes.

9.5.3 The Steering Committee will be required to set up a website that displays the following:

- Application letter;
- Business Plan;
- Urban management perception report;
- Public meeting presentations and minutes;
- SRA By law;
- SRA Policy;
- SRA frequently asked questions;
- Notices; and
- Blank consent / objection form

9.5.4 The special rating area application must be submitted by 30 September of the financial year preceding the establishment of the special rating area. The CFO may extend this date if a properly motivated request is received. This will depend on Council's ability to accommodate the late application within the budget process.

9.6 Objections

9.6.1 Consents and objections will be considered only if they are submitted to Council by the last day specified in the application notice.

9.6.2. Property owners objecting to the establishment of a special rating area in terms of paragraph 9.4.3 must do so in writing and include a motivation for their objection.

9.6.3 The Steering Committee must engage with all the objectors and provide them and Council with minutes of these meetings. The objector/s will be allowed to respond to the minutes.

9.6.4 Any property owner who wants to make oral representations for submission to Council in terms of section 7(4) of the By-law will be assisted by an official to document this for inclusion in the report to be considered by Council.

9.7 Inaugural Phase

9.7.1 The process and appointment of all service providers must be communicated to the property owners on the NPC's website and in newsletters.

9.7.2 The application form to become a member of the NPC must also be available on the website.

9.7.3 Any special rating area that is approved more than nine months prior to the effective date may:

9.7.3.1 delay the implementation of the special rating area and commence with year two of the business plan. This will imply that the term is effectively reduced by one year; or

9.7.3.2 implement the original business plan.

10. **BUSINESS PLAN CONTENT**

The business plan comprises of the following:

- a motivation report

- an implementation plan
- a term budget

10.1 Motivation report

The motivation report must contain the following:

- 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 business 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 IDP⁷ as per the Service Departments' business plans;
 - 10.1.1.5 an explanation of the institutional arrangements proposed in relation to the special rating area (including whether the applicants are requesting that ratepayers carry out planning and administrative functions within the area, as contemplated in paragraph 8.2);
- 10.1.2 Vision;
- 10.1.3 Mission;
- 10.1.4 Goal;
- 10.1.5 A diagram clearly indicating the boundaries of the proposed special rating area;

⁷ The City's IDP is available on www.capetown.gov.za:

10.1.6 Management:

10.1.6.1 whether the special rating area is to be administered by the City or by a NPC;

10.1.6.2 proposed management structure:

- composition of special rating area Board including allocation of portfolios; and
- operational arrangements;

10.1.7 Services:

10.1.7.1 Service providers to be appointed as contemplated in paragraphs 2.1.4 and 9.7.1.

10.1.8 Financial Impact:

- provide details regarding the calculation of the additional rate;
- provide details of criteria to qualify for exemption from paying the additional rate as per paragraph 9.2.8;

10.1.9 A list of all rateable properties within the proposed special rating area, contact details of all property owners and the value of each property as set out in the Council's general valuation roll. Differentiation between categories of properties, as provided for in section 8 of the Property Rates Act, 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 goals to implement improvements or upgrades as per the motivation report and must at least address the following:

10.2.1 Milestones;

10.2.2 Tasks per milestone;

10.2.3 Start and finish date per task;

10.2.4 Assign responsibility per goal, milestone & task; and

10.2.5 Performance indicators per milestone.

10.3 Term budget

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

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

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

10.3.2 subject to the provisions of the Property Rates Act, the additional rate in any category of property must not exceed 25% of the municipal property rate. Any deviation must be fully motivated to Council for consideration.

11. ANNUAL REQUIREMENTS

- 11.1 The NPC must confirm the property data base; and
- 11.2 Submit an annual budget and implementation plan as approved at the AGM by 31 January (paragraph 15.2).
- 11.3 Year-on-year budget growth must be in line with the City's projected property rates increase.
- 11.4 Any deviations to paragraph 11.3 above will be subject to approval by Council during the annual budget process.

12. AMENDMENT TO THE BUSINESS PLAN

In the event that a NPC seeks to amend the boundaries of the SRA and/or the business plan content then the procedures set out in section 14 of the By-law must be followed and submitted by 30 September.

Section 14 (4) of the By-Law requires good reasons to be provided to not allow non-compliance with Chapter 1 of the By-Law. The following factorise, although not limited to, must be addressed in the motivation:

- explanation of impact on costs, budget and implementation plan expectations;
- cross subsidisation by existing members;
- fairness and equity;
- affordability and sustainability of the existing SRA;
- intention of the legislation prescribing that all property owners; must be allowed to participate in the formation of a SRA;
- priorities of the new area may differ from the existing SRA priorities; and
- arrears profile

13. EXTENSION OF THE SRA TERM

In the event that a NPC seeks to extend the term of the special rating area for a further period then the procedures set out in section 15 of the By-law must be followed and submitted by 1 September.

14. DISSOLUTION

The special rating area may be dissolved by resolution of the Council, subject to the provisions of section 16 of the By-law and the NPC's memorandum of incorporation.

15. FINANCIAL CONTROL

15.1 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.

15.2 The NPC must 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.

15.3 Before the City will pay over any additional rate collected to the NPC, the NPC and the City must have concluded a written finance agreement regulating, amongst other things:

15.3.1 the mechanisms and manner of payment;

15.3.2 how the additional rate is to be held by the NPC;

15.3.3 any parameters relating to expenditure; and

15.3.4 any obligations on the NPC to take out and maintain appropriate insurance.

16. COMMENCEMENT AND IMPLEMENTATION

16.1 Implementation of this Policy commences on 1 July 2012.

16.2 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.

16.3 This Policy and its implementation must be reviewed annually.

17. 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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