National Treasury

MFMA Circular No. 64
Municipal Finance Management Act No. 56 of 2003

Revenue Management

CONTENTS

Introduction

National Treasury's budget circulars have traditionally focused on the expenditure budgetary items and provided guidance for tariff setting. While municipal revenue collection levels are scrutinised during budget engagements there has, up until now, been little guidance on what municipalities should be doing to maximise the revenue generating potential of existing sources of revenue such as property rates and trading services.

In spite of the local government legal framework and supporting regulations issued by national government, municipalities continue to struggle with the delivery of basic services and the related billing and collection activities.

Over the next few months, National Treasury intends issuing a series of Circulars aimed at improving overall revenue management in municipalities. The purpose of these circulars will be to guide municipalities in the development of credible revenue frameworks by reaffirming the fundamental principles of costing, revenue management and revenue enhancement.

The interchangeable use of the terminology, 'revenue enhancement' and 'revenue management', is counterproductive. For purposes of furthering a common understanding, these terms need to be separately defined:

Revenue management is akin to expenditure management, it is a fundamental and routine financial management function of the municipality's revenue generating business that encompasses billing and collection activities in respect of trading services and property rates levied.

Revenue enhancement is about improving by making more, in the case of municipal revenue it may be associated with increasing the value of revenue generated.

Revenue enhancement has two components to it. The first being national policy developments that give rise to additional sources of revenue for local government while the second component encompasses the ability of the municipality to grow its own revenue base. For purposes of this circular, reference to revenue enhancement will only deal with the municipality's role in generating revenue.

In terms of this circular and the simplistic definitions above, it is an assumption that, if the municipality has effective processes and internal controls to ensure that every property is billed for property rates and all services consumed, then it is indeed maximising the revenue generating potential of the existing revenue base. This is considered fundamental to municipal operations and, only if these basic practices have been achieved should municipalities contemplate revenue enhancement initiatives. The baseline information is critically important.

This circular is presented in two parts. Part One deals with revenue management while Part Two focuses on the recognition of Municipal Property Rates Revenue. This circular provides guidance to municipalities for the preparation of their 2013/14 Medium Term Revenue and Expenditure Framework (MTREF) and specifically on the revenue side of the budget. It must be read together with MFMA Circulars No. 48, 51, 54, 55, 58 and 59.

Part One: Revenue Management

1 Legislative Framework

The Local Government Municipal Systems Act, 2000 (Act 32 of 2000) Chapter 2, *Legal Nature and Rights and Duties of Municipalities*, establishes the right of municipal councils '*to fund the affairs of the municipality by charging fees for services'*.

Furthermore, Chapter 8, *Municipal Services*, Section 75A, provides general power to the municipality to levy and recover fees, charges, and tariffs in respect of any municipal function or service provided. Chapter 8 goes on to provide specific information as to what is required from the municipality to give effect to executing such general powers and functions.

The legal framework provides for municipal powers and functions that enable municipalities to charge for services rendered, to collect money due and to levy interest on outstanding amounts. The Local Government Municipal Systems Act, sections 12 and 13, deals extensively with municipal legislative processes, particularly the passing and publishing of municipal by-laws in a provincial government gazette. The municipal by-laws are legally required to give effect to decisions taken by the municipal Council.

In addition, Section 15 defines the *'municipal code'* as a compilation of all municipal by-laws that municipalities must have in place. Municipalities are legally required to ensure that the municipal code is compiled, that it is appropriately annotated and updated and that it is available to any member of the public for a reasonable fee.

2 Key focus areas for the 2013/14 budget process

The *Local Government Budgets and Expenditure Review* published in September 2011 contains both financial and non financial information pertaining to municipal key functions. In the revenue and expenditure trends chapter the issues relevant to municipal revenue management include, amongst others, debt collection and correct pricing of municipal trading services.

National Treasury's Circular 58 advises municipalities to pay attention to ensuring the collection of revenue; *"municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow-up to collect revenues owed".* The Circular also guides municipalities on factors to consider when determining their annual tariffs; these include, amongst others, the input costs of trading services, financial sustainability, local economic conditions, affordability of municipal services; the municipal indigent policy and the relevant sector specific policies.

Furthermore, Circular 58 provides substantial information to guide municipalities with tariff determination processes that ensure cost reflective tariffs in respect of municipal trading services.

The National Treasury's Local Government Budget Review, 2011 noted South Africa's resilience during the global economic downturn and predicted a positive domestic outlook. However the MFMA Budget Circular 59 for the 2012/13 MTREF cautioned municipalities to ***"adopt a conservative approach when projecting their expected revenues and cash receipts"***. This guidance, in addition to the information provided by this and other budgetary circulars are intended to assist municipalities with their annual budget planning processes.

Municipalities must ensure compliance to the public participation process that is legally required in terms of sections 22 and 23 of the MFMA (read with the relevant provisions of the MPRA and the Municipal Systems Act). When a municipality undertakes community participation to invite comments in respect of proposed tariffs for the tabled budget and then materially changes this tariff at the time of the adopted budget, without further community participation, it may face a legal challenge for failing to comply with the legislated community participation provisions[1].

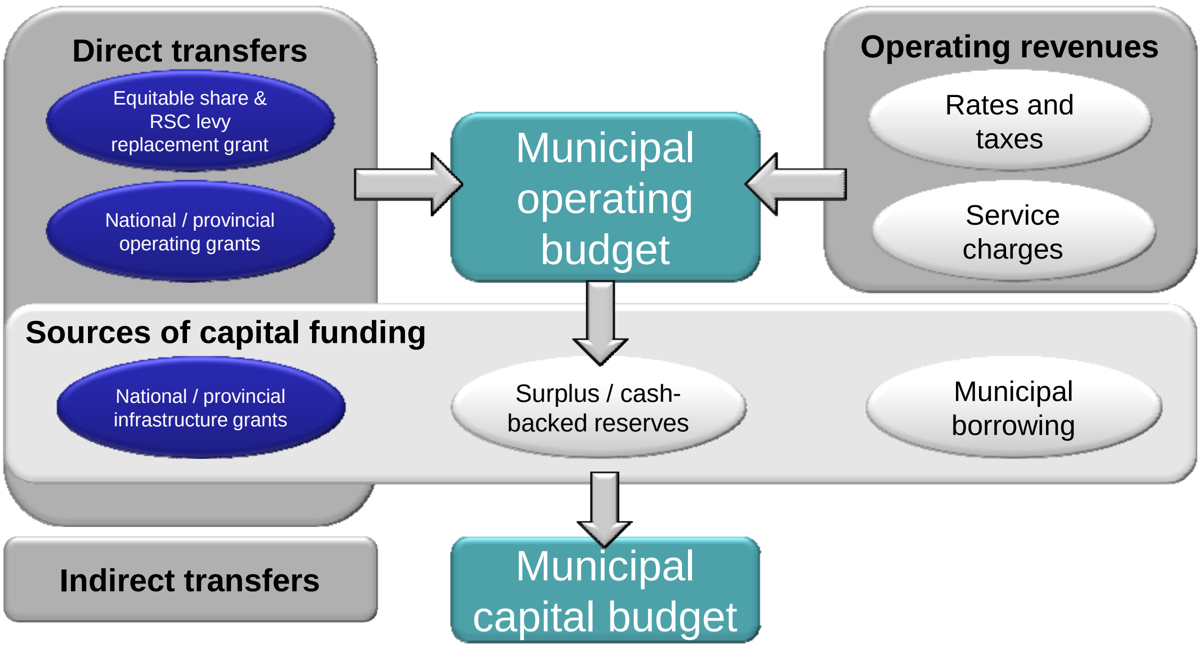
3 Sources of funding for municipalities

The primary responsibility of a municipality is to deliver services; this is what the municipality's "business" is about. Section 75A of the Municipal Systems Act allows municipalities to levy and recover fees, charges or tariffs in respect of municipal service delivery functions and to recover collection charges and interest on outstanding amounts.

Furthermore, section 75 of the Act, makes it a necessity for municipalities to adopt by-laws to give effect to the implementation and enforcement of their tariff policies; in fact, all policies and supporting decisions taken by the municipal council must be supported by a by-law to make it legally enforceable. Failure to comply with the necessary by-law requirements may expose the municipality to litigation.

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. These allocations are announced annually in the national budget. Transfers to municipalities from national government are supplemented with transfers from provincial government. Furthermore, funding is also channelled from district municipalities to local municipalities.

The complete local government fiscal framework is designed to fund municipalities as graphically illustrated below:



[1] South African Property Owners Association v Council of the City of Johannesburg Metropolitan Municipality and Others (648/2011) [2012] ZASCA 157 (8th November 2012) at www.saflii.org.za.

These sources of funding are briefly described below.

3.1 Funding the operating budget

The ***equitable share*** is a formula driven allocation to municipalities and represents local government's share of nationally raised revenue. Equitable share allocations are intended to supplement municipal own revenue that is derived from trading services and property rates. While municipalities may use their equitable share allocation at their discretion it is primarily intended to fund free basic services.

National conditional grant allocations are usually allocated for a specific purpose and have conditions attached to how it may be utilised; for example, the Municipal Systems Improvement Grant (MSIG) and Finance Management Grant (FMG). National conditional grant funding is usually made available to further those national priorities applicable to local government[2].

Where municipalities fail to meet the conditions as stipulated in the DoRA or fail to spend their conditional grant allocations the funds must be returned to the National Revenue Fund.

Similarly, ***provincial transfers*** are for a specific purpose and municipalities are expected to adhere to the stipulated conditions of each grant. This funding is usually made available to further provincial priorities that are specific to the province.

3.2 Funding the capital budget

Funding the capital budget presents a challenge; several municipalities complain of insufficient funds to undertake capital investment projects. Municipalities are expected to allocate a portion of their internally generated '***own revenue***' towards their capital budget funding mix. This can only be achieved if surpluses are generated on their *Operating Statement of Financial Performance*. In illustrating, let us assume that a municipality would like to construct a road from 'own revenue'; traditionally road infrastructure is financed from property rates revenue. Where the municipality's *Operating Statement of Financial Performance* does not generate a surplus the consequence is that there will be no 'own funding' to finance the road infrastructure. However, if the municipality has cash backed reserves from previous financial years, that is, if surpluses were generated on the Operating Statement of Financial Performance during previous years, there may be 'own funding' available.

Municipalities may also ***borrow*** money to fund for their capital budget however this is dependent on the strength of their Statement of Financial Position (Balance Sheet) and their ability to repay the associated finance charges. Funds derived from borrowing should only be utilised to finance infrastructure that is economically beneficial and generates revenue for the municipality.

National government makes ***capital transfers*** to municipalities and these transfers are targeted at specific capital projects. The ***Municipal Infrastructure Grant (MIG)*** is specifically allocated for the eradication of infrastructure backlogs.

Another source of funding may be in the form of ***public contributions and donations*** where external sources provide money to a municipality, for example, property developers are required to make contributions for engineering services provided.

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[2] Circular 59 includes a list of the annual Conditional Grant Schedules that specify the various types of conditional grants allocated to municipalities.

4 Own Revenue

Municipalities generate revenue from trading services and property rates levied as explained above. 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. Regular reconciliations must be undertaken to check if billing records are complete, that is, that all properties are correctly billed for property rates and all trading services consumed. Municipalities must strive to get the basics right. This means that municipalities must put the necessary processes in place to ensure integration of all municipal functions along the revenue value chain.

A brief description of the basic sources of municipal revenue is provided below.

4.1 Property rates

Municipal property rates are a tax levied on the market value of properties within the municipality's jurisdiction. Property rates must be determined in terms of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004)(MPRA).

The MPRA provides for municipalities to adopt a Rates Policy that is consistent with the provisions of the Act, for the levying of property tax on all rateable properties within its area of jurisdiction. Furthermore, municipalities must pass a by-law and publish it in the provincial gazette; this gives effect or legalises the levying of property rates by the municipality.

The municipality's budget finalisation process must include passing a resolution for the levying of property rates per category of property; this resolution must be promulgated in the provincial gazette upon ratification of the budget decisions. Failure to comply with this promulgation process may render the cent in the Rand unenforceable for a particular financial year; and consequently uncollectable thereby posing a significant risk to the municipality's financial sustainability.

4.1.1 Understanding the municipal property rates base

- The municipal property rates base is the value of all rateable properties within its municipal boundaries which the municipality has valued for the purpose of levying property rates; and in accordance with its Rates Policy.
- The General Valuation Roll and subsequent Supplementary Valuations are the source of this baseline information; it provides an indication of how much property rates revenue the municipality has the potential to raise from its property base.
- This information is fundamental to equitable and fair budget planning in respect of the municipal tariff setting process for property rates; that is, determining the rate in the Rand applicable for each of the categories of property provided for in the municipality's Rates Policy.
- The municipality must firstly ensure that it has accurate information of all the land and/or properties within its area of jurisdiction, that is, the cadastre.

Cadastre

The cadastre is an official record of dimensions and values of land parcels used to record ownership and serve as a basis for calculating property rates.

The cadastre commonly includes details of the ownership, the tenure, the precise location (some using GPS coordinates), area dimensions, cultivations if rural property and the value of individual parcels of land. Cadastres are used in conjunction with other records, such as a Deeds Register.

The cadastre is a fundamental source of data for local governments worldwide.

- The appetite for property investment within the municipal area is influenced by the availability and efficiency of a municipality's infrastructure, economic viability, the rate at which plans for property development are processed (that is, the efficiency of the Town Planning functions), cost implications and return on investment amongst others. This impacts the growth of the municipality's rates base.
- The municipality must track the plans approved for property development from the foundation building to the final inspection phase whereupon the 'certificate of occupation' is issued; this should serve as a 'trigger' for the Valuations unit to do a supplementary valuation and categorise the property accordingly. The billing records must be updated with this information and the correct cent in the Rand, based on the category of property must be applied.
- The functions described above usually reside outside the Budget and Treasury Office and Revenue Management functions of the municipality; it is most likely the responsibility of Town Planning, Valuations, GIS and Land Use Management.
- The revenue management function, for the purpose of property rates, relies on property and ownership information generated by the Valuations function and the Deeds Registry respectively. When the billing records do not reflect the same information as Valuations and the Deeds Registry then it is likely that the municipality's billing records do not reflect the correct property information or ownership information or both.
- It is imperative that a municipality's Revenue Management function makes provision for the reconciliation of billing data to the Deeds Registry to confirm the accuracy of property ownership information; to the Valuation Rolls to confirm the accuracy of property values and the category of property (with consideration for 'use' and 'permitted use') that informs the usage and the applicable cent in the Rand to be applied.
- This reconciliation of billing information to other systems or functions within a municipality is necessary to ensure that the municipality is able to maximise the billing and collection of property rates revenue. The frequency of such reconciliation will vary depending on the municipality's circumstances.
- It is prudent, to ensure the protection and growth of the revenue base, that municipalities should have processes in place to track town planning functions that may change the characteristics of properties within the four year valuation cycle; and reconcile any movement in property values to their monthly billing for property rates.

4.1.2 Calculating property rates

The Municipal Property Rates Act provides for municipalities to levy property rates on the following basis:

- a rate in the Rand levied on the market value of rateable properties; and
- apply a different rate in the Rand to the various categories of property provided for in the municipal Rates Policy.

Property values are fundamental to informing the rate in the Rand for each category of property as defined in the Rates Policy. Other factors for consideration include the growth rate of property development, the CPIX and the total cost of the municipal account per household which has a bearing on the household's ability to pay.

4.1.3 Credibility of the property rates tariff setting process

- When the cent in the Rand for property rates is determined by the Finance Department's budget office without the baseline information described above it is almost certain that the projected property rates revenue is merely a budget 'balancing' number. In other words, the municipality determines the amount of property rates revenue that must be collected based on the 'budget gap' created by its projected expenditure and the expected shortfall on its trading services; or the property rates revenue budget is derived from the shortfall of the revenue projections in respect of trading services. In the case of smaller and/or rurally located municipalities they are largely dependent on their equitable share allocation.
- The municipality's Valuation Roll is an important input to the process for determining the cent in the Rand per category of property.
- National Treasury's budget circulars encourage municipalities to budget for 'surpluses'. The baseline information is fundamental to municipalities generating the revenue required to table credible surplus budgets.

National Treasury will soon be introducing additional reporting in respect of the municipal property rates base. Municipalities will be called upon to provide information pertaining to the categories of property their Rates Policy provides for, the market value per category (per the General Valuation and Supplementary Rolls) and the differential tariffs provided for each year.

4.1.4 Liability for property rates

- The property owner is liable for property rates in accordance with Chapter 3 of the MPRA, subject to Chapter 9 of the Municipal Systems Act.
- Property ownership is recorded at the Deeds Registry, the custodian of property ownership records.
- There are examples where property ownership information at the Deeds Registry is not up to date. An example of this is government owned property in the name of the former National Housing Board or statutory bodies and statutory funds which no longer exist. In these cases the departments failed to notify the Registrar of Deeds. Where property ownership is in dispute the liability for the payment of property rates is uncertain. This problem is prevalent among state owned properties and therefore a contributing factor to outstanding government debt.

National Housing Board Title Deeds

In terms of the Housing Act, 1997 (Act No. 107 of 1997), sections 7(3)(d) and 14(2)(c) provinces should have requested the Registrar of Deeds to endorse the title deeds of properties in the name of the relevant department where such properties were not passed to beneficiaries or where ownership was not transferred to municipalities.

Properties still registered in the name of the former National Housing Board or in the name of former statutory bodies and statutory funds therefore have incorrect ownership information reflected on municipal billing systems; this poses a problem when property rates are billed as the registered property owner is liable for property rates.

This exercise is necessary to ensure that the departmental immovable property register is correctly maintained.

- In the case of government accounts it is in the interest of government departments to work with the Deeds Registry so that property ownership is corrected. This will assist departments with improving the information presented in their asset registers.
- When property is transferred to a new owner by the Deeds Registry, it may take between six weeks to ten weeks for this information to reach the municipality's revenue management unit.
- Where municipalities have effective internal processes in their revenue management or billing environment they should be aware of any transfer of ownership before such information reaches them from the Deeds Registry.

Government property and municipal debt

The National Department of Public Works was previously responsible for paying property rates for properties owned by them and also for properties owned by the Provincial Departments of Public Works. This responsibility was devolved to Provincial Public Works departments with effect from 1 April 2008, and since then, the National Department of Public Works pays property rates only for the properties owned by them.

The necessary process to update property ownership and to correctly allocate funds to pay the annual property rates has been problematic as much still needs to be done; this is among the contributing factors to the growth in government debt.

In 2011 the National Department of Public Works undertook to settle outstanding amounts for property rates owed by provincial Public Works departments; this process of reconciling invoices and asset registers to confirm property ownership is still in progress.

Provincial Public Works departments have been advised to make every effort to maintain accurate property ownership so that they can ensure adequate budgeting for the timeous payment of municipal property rates for the buildings that they own.

Another contributing factor to outstanding government debt is the properties previously owned by the National Housing Board.

4.1.5 Debt collection

- Municipalities' customer care and debt management practices should be stipulated in their credit control and debt collection policies, revised annually; and supported by the relevant by-law, as prescribed in Chapter 9 of the Municipal Systems Act.

- Municipalities are reminded that, the Municipal Systems Act, Chapter 3, S15, states that municipalities must compile and maintain the 'municipal code' which comprises all the by-laws; and that the public must be able to request copies of the municipal code information for a reasonable fee.
- The municipality should document the procedures that it follows to give effect to the policies and by-laws that it has adopted.
- The introduction of consolidated billing facilitates the debt collection process. When customers only pay their municipal accounts in part their payment is allocated in a specific order and, the electricity service is usually used as leverage to collect the balance of the amount due.
- It is imperative that municipalities ensure accurate billing information before pursuing credit control measures such as disconnection of electricity.
- The Municipal Systems Act (MSA), Chapter 11, section 118, "Restraint on Transfer of Property" prohibits the Registrar of Deeds to transfer property ownership unless the municipality has certified that all monies[3] due during the two years preceding the clearance application date have been paid in full.
- Section 118(3) stipulates that an amount due for municipal services, property rates and other property taxes is a charge upon the property, and municipalities should use this provision to ensure they collect outstanding debt timely from registered owners.
- Where there is outstanding debt on the property that is older than the two year minimum period the municipality must endorse the revenue clearance certificate to confirm that there is debt older than the two year period and that the new owner will inherit the debt in terms of section 118(3) of the MSA.
- It is useful for officials working in revenue management, particularly, those involved with the legal process, credit control and clearances, to familiarise themselves with all judgments that may have an impact on the municipality's credit control and debt collection activities.

4.2 Trading services

Other municipal trading services such as waste/refuse management, water and sanitation, electricity and prepaid electricity are not dealt with in this Circular. Trading services and tariff determination will be explained in a separate circular.

4.3 Other own revenue sources

In addition to property rates and trading services municipalities render other services from which they may derive revenue. Opportunities for generating revenue include advertising on billboards and street poles; entrance fees to municipal facilities such as public swimming pools and parks; parking fees at stadia grounds; fines issued for illegal dumping; illegal property usage and traffic fines amongst others.

The disconnection (for electricity), reconnection fees and interest charged on outstanding balances are also a likely source of revenue for the municipality.

Appropriate annually revised tariff structures, informed by sound costing methodologies, are necessary to inform the tariff determination process for such revenue generating activities.

[3] The outstanding amounts include municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties described in the Municipal Systems Act, S118(b).

These revised tariff structures must be included in the annual budget document as stipulated in the Municipal Budget and Reporting Regulations.

Another area of revenue generation are the Town Planning activities such as fees payable for obtaining planning documents and fees payable for activities in respect of submitting plans for construction and matters relating thereto. These charges are in accordance with the municipality's town planning schemes land use management policies. The National Building Regulations and Building Standards Act, 1997 (Act No. 103 of 1997) and various municipal by-laws are among the pieces of legislations that regulate property development.

The opportunities for revenue generation will differ among municipalities and depend on the range of *'other services'* provided. Municipalities are required to operate within the boundaries of their functional mandates as described in their municipal establishment notices.

4.4 Improving municipal revenue management practices

Revenue generation is everyone's responsibility, not just that of the revenue management unit. Municipalities must effectively manage all functions that impact protecting and growing their revenue base. The implementation of internal controls along the revenue value chain will aid effective data handovers; utilising system data validation mechanisms and ensuring that service level standards are fundamental to ensuring the integrity of billing data. Municipalities tend to neglect these basics and opt for costly 'data cleansing' exercises; however it is protecting the data integrity at source that will yield longer term benefits.

The following are fundamental to maximising the potential of existing revenue sources:

- The billing system must correctly reflect all billing data and customer data that are required to issue an accurate invoice on time to the relevant customer.
- All properties within the municipality's area of jurisdiction must be correctly valued whether in the General Valuation Roll or Supplementary Valuation Rolls; and the billing system must be updated with any change in property ownership. This is necessary to grow and protect the municipality's property rates base.
- Effective business processes to ensure that new property development and improvements to existing properties are valued as required and that billing records are updated accordingly; this requires good working relations between the municipality's town planning, valuations and revenue management functions.
- Correct categorisation of properties in terms of the Municipal Property Rates Policy; this impacts usage and property rates tariffs applied to the properties.
- Property usage must be correctly recorded so that the relevant property rates tariff is applied to the property; changes to property usage must also be communicated to the revenue function so that the billing system is updated.
- Water and electricity meter numbers must be recorded correctly and linked to the corresponding property on the billing system.
- Water and electricity meters must be adequately maintained to minimise losses due to leakages or incorrectly measured consumption.
- Water and electricity meters must be read with regularity and accuracy so that the correct consumption information is recorded on the billing system; meter reading estimates must be minimised or at least undertaken in accordance with the municipality's Credit Control Policy prescriptions.

- Refuse and sanitation service charges must be included in the billing records; these services are often neglected as a source of revenue; in fact, some municipalities operate refuse removal services at a loss.
- Billing records must be routinely reconciled to the source of the billing data and customer data.
- Billing queries must be resolved within reasonable timeframes.
- Municipal functions must be adequately staffed with competently skilled individuals who understand the job requirements and how to deliver on it.

Municipalities are reminded to utilise the clearance process to recover outstanding municipal debt as outlined in Section 118(1) of the Municipal Systems Act.

5 Protecting the municipal revenue base

The Municipal Systems Act, section 11 (3) permits municipalities to impose and recover rates, taxes, levies, service fees and surcharges on fees, including setting and implementing tariff, rates, and tax and debt collection processes. Tariffs for trading services should be determined in relation to the cost of providing such services. The Municipal Systems Act states that municipalities must *“ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due”.* There are however several municipalities that are not meeting these minimum requirements.

The municipal General Valuation Roll has a four year lifespan; it is a legal requirement in terms of the Local Government Municipal Property Rates, 2004 (Act No. 6 of 2004). Supplementary property valuations are required annually, whenever necessary, to ensure that municipalities update their property information, should new developments come into being; properties change ownership or any changes to land that may cause a change in valuations or property usage and consequently impact the property rates levied or the nature of municipal services provided, all of which have a financial impact.

The General Valuation Roll and Supplementary Valuation Rolls are the revenue base of the municipality; complete, accurate and fair property valuations are the basis of the revenue budget, firstly in respect of property rates and also trading services.

The municipality must have complete information about their revenue base so that they can build a revenue budget that is credible. The practice of using budgeted property rates to close the *‘budget gap’* is a bad practice which must be stopped.

Municipalities are encouraged to table *‘surplus’* budgets. Achieving budget surpluses is dependent on several factors such as cost reflective tariffs; operational efficiencies; maximising the revenue regenerating potential of own revenue sources amongst others. In addition, a productive workforce and sound decision-making will ensure that the municipalities’ limited financial resources are spent wisely so that value for money is achieved.

Part Two: Recognising property rates revenue

6 Recognising property rates revenue

A number of issues about the recognition of revenue related to municipal property rates have been raised over recent reporting cycles. This circular assumes that the municipality has levied property rates in accordance with the Municipal Property Rates Act, the municipal Rates Policy and supporting by-law approved by the municipal council and accordingly published in the provincial gazette. The discussion outlines a summary of when revenue for municipal rates should be recognised.

6.1 Basis of accounting Policy

The MPRA outlines that municipalities should levy property rates on rateable properties, using the provisions of the MPRA (which outlines the basic framework) and each municipality's rates policy[4] (which outlines how the MPRA will be implemented within each municipality and will include, for example, provisions outlining which properties are exempt, rebates granted, reductions, etc.). Therefore in considering the accounting policy for property rates, both the MPRA and a municipality's rates policy should be examined.

6.2 Properties on which property rates can be levied

All properties, subject to subsection 7(2) of the MPRA, should be included on the valuation roll for the purposes of levying rates. As property rates are due for a particular reporting period, the rates should (in theory) be recognised as revenue at the start of a financial year and collected in installments agreed with the property owners.

There are however a number of scenarios that might affect the timing of when revenue is recognised:

6.2.1 Properties not included on the General Valuation Roll

Where a property has been omitted from the General Valuation Roll, section 78(1)(a) of the MPRA indicates that a Supplementary Valuation Roll should be prepared and that property rates may only be levied from the effective date of the Supplementary Valuation Roll (section 78(4)(a). This means that until the Supplementary Valuation Roll is effective, no property rates may be levied for properties previously omitted from the General Valuation Roll.

From a revenue recognition perspective, because the municipality does not have the ability to levy or collect property rates for such properties before they are included in the Valuation Roll, the municipality will not be able to demonstrate that it exercises "control" over the resources in accordance with GRAP 23. Consequently, property rates may only be recognised as revenue when the Supplementary Valuation Roll is effective.

In terms of sections 78(1) and 78(4), the same approach will be followed for properties that were incorrectly valued during the previous General Valuation and those that must be revalued for any other exceptional reason. This means that a municipality should recognise

[4] The Municipal Rates Policy must be reviewed annually in terms of section 5 of the MPRA and amended is so required.

revenue using the incorrect or previous valuation until the supplementary roll is effective. After the supplementary valuation roll is effective, the corrected or revised rate will be used.

6.2.2 Properties that change 'category'

During the existence of a particular property, the "category" within which it is classified in the General Valuation Roll may change. For example, a property that was previously categorised as residential property may subsequently be used for "commercial" purposes.

Section 78(1) notes that while a Supplementary Valuation Roll should be issued to include the change in use of the property, section 78(4)(e) notes that property rates become payable on the date that the change in categorisation occurred.

Given that the municipality may collect property rates revenue from the date that the category is changed, it means that any changes to the amount of revenue that can be collected as a result of the "re-categorisation" should be accrued from the date on which the re-categorisation occurred.

6.2.3 Properties that change in value

Properties may change in value for a various reasons, most notably for improvements made to the property. While section 78(1) notes that a Supplementary Valuation Roll should be published to include such properties, section 78(4)(d) notes that property rates become payable on the date that the event occurred. Consequently, this means that any revisions to the amount of revenue that can be collected should be accrued from the date that the event occurred. For example, where improvements are constructed on vacant land, the "event" envisaged in section 78(4) may be the date of the occupation certificate issued by the municipality; and as from this date, the municipality may accrue revenue due based on an estimate of the value of the improvements. This valuation may be based on the valuation certificates lodged with the Deeds Registrar. When the Supplementary Valuation Roll is concluded, the initial estimate of revenue due may need to be revised.

In addition to properties included in the General Valuation Roll attracting property rates, other items may meet the definition of "property" within a particular municipality (this will depend on the individual municipal Rates Policy); for example, property rates may be levied on certain "property rights" of which the right to build sectional title units is a typical example. In these instances, municipalities may levy taxes on the rights to build section title units covering a certain number of square meters prior to the units being completed (hence the taxes are levied on the rights). This practice may vary among municipalities; the municipality's Rates Policy will have to be examined to establish when and at what amounts revenue should be recognised.

The table below outlines a summary of sections 78(1) and (4) and the impact on the recognition of revenue:

Description	Recognition point (both initially and for changes to property) *(which may differ from when the actual billing is made to the customer)*	Measurement
Property not in valuation roll	Effective date of supplementary valuation roll.	Based on value in General Valuation Roll.
Property in valuation roll	Start of the financial year.	Based on value in the General Valuation Roll.
Amendments to the property:		
Categorisation of property changed.	Date change in categorisation occurred.	Estimate of property rates at date of change; revise once Supplementary Valuation Roll effective.
Subdivided or consolidated after the last general valuation.	Date subdivision or consolidation registered with the Deeds Office.	Estimate of property rates at date of registration; revise once Supplementary Valuation Roll effective.
Change in value.	Date change in categorisation occurred.	Estimate of property rates at date of change; revise once Supplementary Valuation Roll effective.
Incorrectly valued.	Effective date of Supplementary Valuation Roll.	Based on value in the Supplementary Valuation Roll.
Revalued for any other exceptional reason.	Effective date of Supplementary Valuation Roll.	Based on value in the Supplementary Valuation Roll.

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20 November 2012