Alarm raised over increasing municipality rates that contravene Treasury guidelines

According to the South African Property Owners Association (Sapoa), increasing municipality rates threaten the viability of commercial property tenants who form the bulk of ratepayers in most of the concerned municipalities.

Source: Gallo/Getty

It says that despite National Treasury guidelines, municipalities have regularly increased their rates by over 10% per annum over the past few years, more than the annual consumer price index (CPI).

Water and property rate prices rose by a substantial 140% from 2010 to 2021, almost double the rise in the general price level.

Delving deeper into the aggregate finances of municipalities across South Africa, Sapoa's research shows that property rates are fulfilling an increasingly important role in supporting municipal revenue.

Property rates income rose by a substantial 174% between 2010 and 2021, much higher than the 72% increase in CPI and

the 156% rise in overall revenue – thereby compensating for shortfalls on other revenue streams.

As for spending, aggregate municipal expenditure rose by 165% from 2010 to 2021, significantly higher than the rise in national government spending at 128%.

Drivers behind increased municipal spending

According to Sapoa, employee costs (an increase of 180%) and electricity purchases (a rise of 216%) represent the main drivers behind the upsurge in municipal spending. Hence, administrative charges such as those related to property rates compensate for or 'subsidise' higher expenditures like employee costs, electricity purchases, and contracted services.

When focusing only on the metropolitan municipalities, all recorded increases in property rates income (and commercial and industrial rates income more specifically) substantially exceeded the rise in inflation over the 2010-21 period.

"This shows that property rates are excessive and have increased substantially as ratepayers faced cost increases well above the rise in general prices as measured by the CPI," says Sapoa.

"Excessive costs or increases in costs associated with property rates could hold various adverse consequences, and this, in turn, can determine whether such adverse impacts are materially and unreasonably prejudicing Section 16(1) of the Local Government: Municipal Property Rates Act 6 of 2004."

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John Loos 15 Jun 2023

Economic report on impact of property rates

Concerned about these rate increases, Sapoa commissioned Oxford Economics to produce a comprehensive economic report on the impact of property rates in South Africa.

"The report indicates quite clearly that the five biggest metropolitan municipalities in the country - City of Johannesburg, City of Tshwane, City of eThekwini, City of Cape Town and City of Nelson Mandela Bay - have, over the past years, increased rates and taxes to such a level that it is detrimentally affecting the local economy of each municipality and the national economy.

“Reserve Bank Governor Lesetja Kganyago also warned about the inflationary effects of government institutions (including municipalities) increasing their prices above inflation when announcing the Monetary Policy Committee's decision on the repo rate on 25 May 2023," Sapoa says.

Municipalities contravening constitutional imperatives

The organisation has stressed that it is unconstitutional for municipalities to continue levying rates that unreasonably prejudice national economic policies, economic activities across municipal boundaries or the national mobility of goods, services, capital or labour.

The Oxford Economics report is also said to have confirmed that the continuous high increases in municipal rates contravene these constitutional imperatives.

"We have addressed correspondence to the relevant municipalities, the South African Local Government Association, the minister of finance and the minister of co-operative governance and traditional affairs to commence the engagement

process as required in Section 16 of the Rates Act.

“Meanwhile, we trust the municipalities will heed the call to constructively engage with our sector as our members constitute the largest rate-paying bloc in most of the municipalities concerned,” says Sapoa.