

KwaZulu-Natal Agricultural Union

The Local Government: Municipal Property Rates Act 6 of 2004



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Presentation Outline

Implications of the Municipal Property Rates Act
for agriculture.

- The Case for Rating Agricultural Properties Differently to Other Types of Properties
- Economic Impact of Property Rates on Agriculture
 - Current situation
- Summary of Case Study Findings
- What is/can Organised Agriculture doing to Overcome these Challenges?

The Case for Rating Agricultural Properties Differently to Other Types of Properties

Main Factors to Consider (1)

- The MOST important factor to consider when rating agricultural property is that long-term returns, compared to other activities, are VERY LOW - +/- 5%



For every 1% Rand Rateage, 20% of return is lost

PROBLEM

Rates, if not set at very low levels, can have a serious negative impact on business sustainability

Main Factors to Consider (2)

- Farming is a highly risky business as it is subjected to various factors which are completely out of its control (i.e. climate, world price & exchange rate fluctuations etc.)



Annual income can thus fluctuate greatly from one year to the next.

PROBLEM

**Unlike Income tax, property rates are not based on the
“ABILITY TO PAY PRINCIPLE”**

Main Factors to Consider (3)

- Unlike commercial & industrial property, the impact of rates on agricultural property disproportionately high as land and fixed improvements make up large proportion of total asset base.



Land alone can make up well over 90% of asset base

PROBLEM

Even low Rand Rateage can have a major negative impact on sustainability

Main Factors to Consider (4)

- Agriculture has to compete on the world market with little or no tariff protection or subsidisation.
- Often agriculture in our competition countries is:
 - Highly subsidised (particularly in the EU & US)
 - Not subjected to property rates



Industry trying to compete on an “uneven playing field”

PROBLEM

Property Rates can negatively impact the Industry’s international competitiveness

Agricultural Subsidies

The subsidy received by ONE of these in the European Union annually



Is almost 3 times more than the average individual annual income earned by 75% of the population of Sub-Saharan Africa (\$2.75 per cow per day)



The Agricultural Sector already has a huge job in competing internationally against foreign subsidies – property rates makes this task even more difficult

International Comparisons Rating of Agricultural Property

Continent / Country	Comments	Basis
Europe	Generally exempt but if not, low UK exempt; Germany 0.6%	Land & Fixed Imps.
N. America	US <1%; Canada 0.25% to 0.28%	Land & Fixed Imps.
S. America	Generally <1.6% but generally with exemptions	Land & Fixed Imps.
Africa	Only in Botswana 0.2% to 0.8%	Land & Fixed Imps.
Asia	Commonly between 0.2% to 0.5% Exception is Japan: 1.4%	Land & Fixed Imps.
Oceania	Australia : exempt; NZ <1%	Land & Fixed Imps.

SA out of line with rest of world in terms of probable Rand Rateages that will be applied
and using Market Value as the basis for valuations

Other Factors to Consider (1)

- Have not (and probably will not) receive the same level of Municipal services enjoyed by other property types
- Currently, a lot of services provided by farming community,
- at its own expense



**When rates are levied farming community
may stop services?**

Other Factors to Consider (2)

- Many farming areas subject to land claims, very few of which have been finalised
- Act provides for valuations based on “Market Value” and not improved value

In terms of this latter point



Valuation of land will not be based on “use value”

PROBLEM

Property Rates will force those engaged in agriculture close to desirable development areas out of agriculture

Other Factors to Consider (3)

**Property Rates, as a cost to business,
should not be viewed in isolation**

**The “cost of doing business” in South Africa
is becoming increasingly onerous
i.t.o. both direct costs and “compliance” costs.**



**Property Rates represent another added cost
– a holistic approach is needed.**

*The Basic Economic Impacts of
Property Rates on Agriculture*






What are the Basic Economic Impacts of the Levying of Property Rates on Farmland?

- First and foremost, **return to land drops**
- Which leads to **drop in land values**
- Which leads to a **decrease in farmers' solvency and collateral**
- Which leads to **decrease in farmers' ability to finance growth of business**
- Which leads to **decrease in investment in fixed improvements**
- Which leads to **decrease in productivity & production**



This chain reaction unfortunately leads to other unintended consequences

What are these Other Unintended Consequences?










-  Decrease in global competitiveness
-  Increase in bankruptcies
-  Increase in job losses
-  Increase in social dysfunction in rural areas
-  Increase in crime



Overall a viscous cycle of decreased investment, productivity and farming activity in general is created.

Counterproductive in terms of growth policies.

Do Property Rates Achieve the Objectives of the Strategic Plan for Agriculture?

Desired Outcomes of Strategy (9)	Impact of Rates
Increased wealth creation in agriculture and rural areas	
Increased sustainable employment in agriculture	
Increased incomes and increased foreign exchange earnings	
Reduced poverty and inequalities in land / enterprise ownership	
Improved farming efficiency	
Improved national and household food security	
Stable and safe rural communities / sustainable rural dev.	
Improved investor confidence and greater domestic and foreign investment in agricultural activities and rural areas	
Pride and dignity in agriculture as an occupation and sector	

Current Status

Status - 2007 implemented 2nd year of rating 08

Municipality	Rate Randage	Agri rebate %	Phasing in 75/50/25
uMngeni	1.075	50%	N
Umlalazi	1.17	0%?	Y
Kwadukuza	1.643	75%	Y
Mthonjaneni	.0123	50%	Y
Mshwati	1.011	30%	Y
Mbonambi	.0023	50%	Y
Ntambanana	.5	25%	Y
Nkandla	.0184	50%	Y

Status - 2008 implemented

Municipality	Rate Randage	Agri rebate %	Phasing
KwaSani	.1629 (dev)	50%	Y
	.2247 (undev)	? 20%	Y
Hibiscus	.0067 (bona fide use) 1:0:1	75%	Y
	.1675 (mixed agric use) 1:0.25	? 75%	Y
Emnambithi	.003	N	Y
Endumeni	1.00 (agric for agric)	50%	Y
	3.09 (agric for bus/comm)	50%	Y
Richmond	.0025	75%	Y
Umdoni	.016	N	Y
	.63 residential	R75000 res	
uMhlathuze	.00103	5%	Y

Status - 2008 implemented

Municipality	Rate Randage	Agri rebate %	Phasing 75/50/25
Mpofana	1.00	30%	Y
Ezingolweni	.0067 (bona fide use)	75%	Y
	.1675 (mixed agric use) 1:0.25	? 75%	Y
Greater Kokstad	.01	25% - 75%	Y
eThekwini	.0023 .357 (vacant)	N	N

*Brief Summary of
Case Study Analysis*

Case Studies

- Individual Farms (6)
- Sectors (6)
 - Timber (1)
 - Dairy (1)
 - Sugar Cane (4)
- 42 Reporting Periods Analysed (8 years)
- Circulated to:
 - Municipalities
 - SALGA
 - Minister



Factual Information & Deemed to be Sound

Cane & Timber Farm	2006	2005	2004	2003	2002
Market Value	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Real return to Risk & Land	459,862	-279,814	-29,680	493,044	424,180
Rates (1%)	75,000	75,000	75,000	75,000	75,000
Real return to Risk & Land (after tax & rates)	406,612	-332,313	-82,180	440,544	371,681
% Return to risk & land (economic profit)	5.4%	-4.4%	-1.1%	5.9%	5.0%

Dairy Farm	2005	2004	2003	2002	2001
Market Value	8,178,000	8,178,000	8,178,000	8,178,000	8,178,000
Real return to Risk & Land	-112,291	136,399	825,686	-110,465	-439,994
Rates (1%)	81,780	81,780	81,780	81,780	81,780
Real return to Risk & Land (after tax & rates)	-169537	79153	768440	-167741	-517486
% Return to risk & land (economic profit)	-2.1%	1.0%	9.4%	-2.1%	-6.3%

SUGAR CANE INDUSTRY IN KZN (Overall Av.)	2005	2004	2003	2002	2001
Market Value	2,905,687	2,905,687	2,905,687	2,905,687	2,905,687
Real return to Risk & Land	-33,931	-31,092	-48,017	130,174	69,140
Rates (1%)	29,057	29,057	29,057	29,057	29,057
Real return to Risk & Land (after tax & rates)	-54568	-51432	-68357	109834	48800
% Return to risk & land (economic profit)	-1.9%	-1.8%	-2.4%	3.8%	1.7%

DAIRY INDUSTRY IN KZN (Sample 100 producers)	2007 July	2006 July
Market Value	3,000,000	3,000,000
Real return to Risk & Land	-320,456	-215,840
Rates (1%)	30,000	30,000
Real return to Risk & Land (after tax & rates)	-350456	-237140
% Return to risk & land (economic profit)	-1.2%	-7.9%

Case Study Results

- Positive returns made in only 17 of 42 reporting periods
- Positive returns made in only 3 of 8 years
- Weighted average return over period minus 2.01%
- Weighted average annual subsidy per enterprise needed of R144 000 to break even



Can't afford to pay rates at all but have said 0.5% max

*How Can Organised Agriculture
Overcome these Challenges?*

What is Organised Agric's Major Challenge?

WELL, GIVEN THE FACT THAT :

- Municipalities have massive delivery responsibilities
- Their constituency is getting impatient regarding the lack of meaningful delivery
- They have limited capacity
- They were owed collectively, as at Jan 2006, R44 billion

They may be tempted to see their newly rateable areas as being
“CASH COWS” and to thus set high Rand Rateages

Our challenge is to ensure that they do not do so

We Must Focus on What we Can Influence

Rates Paid Depend on three things :

Factor	
1. Market Value of property	Valuers
2. Rand Rateage	Municipality
3. Rebate granted	Municipality
Rates payable	

We can't do anything about the market valuations so must concentrate on getting a fair Rand rateage and / or rebate

Recommendations (1)

- set appropriate ratios between the rates that can be levied on different property categories by way of regulations, as provided for in the Act, and at ratios which do not unduly prejudice the Agricultural Sector;
- by way of regulation, as provided for in the Act, set the maximum annual increase by which Municipalities can increase property rates; and most importantly

Recommendations (2)

- when doing the above, to take cognisance of the evidence presented in the Report and, based on this evidence, Kwanalu's recommendation that,
- before taking into account any phasing in provisions, rebates or discounts, the Rand rateage levied on agricultural property by Municipalities be set at an absolute maximum of 0.5%.

The Agricultural Sector can
make a meaningful
contribution towards local
development
BUT AT THE SAME TIME
ensuring that its long-term
financial sustainability is not
compromised

Thank you!