

INTRODUCTION TO THE CONCEPT OF A SPECIAL RATING AREA (SRA)

(with acknowledgements to the City of Cape Town's website, upon which this is based)

City Improvement Districts (CIDs) & Special Rating Areas (SRAs)

The concept of City Improvement Districts (CIDs), or what we now call Special Rating Areas (SRAs) in South Africa, originated in Canada in the 1960's in response to revitalisation efforts by property owners in Toronto.

These original CIDs were based on a voluntary contribution basis but soon the "free-rider problem" developed where non-contributing property owners were reaping the benefits and rewards of the upgraded area without contributing to the cause. This prompted the move to legislated levies in what we know today as City Improvement Districts (CIDs) or Special Rating Areas (SRAs) in South Africa.

The CID model has spread across the globe, and has found a broad base of applicability, becoming one of the most important local governance interventions in recent times with CIDs having been implemented in at least seven countries, as follows

- More than 1000 in the United States, with 67 in New York City alone
- 347 in Canada
- 261 in Japan
- 225 in European countries
- 185 in Australia
- 140 in New Zealand
- More than 100 in South Africa.

Terminology

With the spread of CIDs across the globe, a number of variations in the CID model and terminology have evolved. This can be attributed to the flexibility of the CID concept and its ability to adapt to the need of specific areas. Due to the variation across the globe, the CID concept has been variously referred to as: "special improvement districts", "public improvement districts", "neighbourhood improvement districts", "urban improvement precincts" "municipal improvement districts", "business improvement areas", "downtown improvement districts" and "city improvement districts".

In the South African context, they are referred to as "Special Rating Areas" (SRAs).

What Is A Special Rating Area (SRA)?

An SRA is a defined geographic area within which property owners (ratepayers) agree to pay for certain additional municipal services to enhance the physical and social environment of the area.

The only services that can be provided by an SRA are supplementary to those existing services provided by the municipality and they commonly include safety, cleansing, maintenance of public space and community facilities, etc.

What is the regulatory framework governing SRAs?

In South Africa, SRAs are governed by Section 22 of the Municipal Property Rates Act (MPRA), the Municipal Finance Management Act (MFMA), Section 21 of the Companies Act, the SA Constitution, and the Overstrand Municipality's Special Rating Area By-law & Policy.

Why establish an SRA?

An SRA provides a well-established institutional model and funding mechanism for those communities who wish to enjoy municipal services of a **higher level** than the **average level** of services across a municipality, and who are prepared to pay extra for these additional services.

In particular, according to the SA Constitution (Sections 152 & 153), the objective of a Municipality is to provide all its residents with certain **basic services** such as water, electricity, sanitation and refuse removal, safety etc – up to an equitable standard.

The advantages of establishing an SRA?

- The cost of providing supplementary services will be borne by all property owners
- Costs are borne in proportion to the value of the property
- The Special Rating Area approach is holistic
- The Special Rating Area creates a positive identity for the area
- The Special Rating Area provides private sector management and accountability
- The improvement of property values
- To put forward ideas for change to council.

What types of 'top-up' services are provided by an SRA?

Typically, these would be services dealing with issues of 'crime and grime' such as additional public safety measures, cleansing services, maintenance of infrastructure, upgrading of the environment, and social services to deal with vagrancy, etc.

In the case of Hermanus, the "top-up" services that have been provided by HPP since 2002 are additional safety and security services and cliff path cleansing services.

What are the benefits for SRA members?

By pooling their resources in an SRA, individual property owners can enjoy the collective benefits of a well-managed area, a shared sense of communal pride, safety and social responsibility, and access to joint initiatives such as waste recycling, energy-efficiency programmes, etc. In the end, these all translate into a tangible boost in property values and capital investments.

Are there different types of SRAs?

No, but an SRA can consist of industrial, commercial and residential components, or a combination of all three within one where different parts of a single SRA pay different levies for different services provided.

How does one establish an SRA?

An SRA is always **initiated by ratepayers**, and **not by the Municipality**. It usually starts with 'champions' within a community who feel the necessity to upgrade services within the boundaries of a certain area. They then form a representative Steering Committee to engage with the Municipality and a business plan needs to be compiled. The business plan needs to indicate the area proposed (and why), the "top-up" services proposed (and why) and how these are to be achieved and funded, and this business plan needs to be presented to the community at a public meeting. Thereafter property owners are lobbied for their support. A majority of more than 50% has to give written support to the formation of an SRA.

Once this has been obtained, the Steering Committee has to submit the business plan, motivation report and implementation plan, as an application to the Municipality. The proposal is then advertised in the media to allow affected parties at least 30 days to render any comments or objections. The Municipality then considers the application and the objections.

After the Municipality has approved the application, a board is elected and a Non-profit Company (with members) is set up with VAT registration, a bank account, etc. This must all be in place before the Municipality bills the property owners and pays over the levies to the SRA.

Who manages the SRA?

An SRA is a Non-profit Company managed by a board elected by its members, and operated by a management team appointed by the board. In a number of SRAs the management services are outsourced to a specialist SRA Management Company. The day-to-day services are almost always outsourced to the likes of private safety & security service providers, etc. The Municipality is not involved in the day-to-day operations, but merely exercises financial oversight and legal compliance.

Who monitors the finances?

An SRA manages its own finances and appoints its own auditors. The audited financial statements form part of the Municipality's consolidated accounts, which are reviewed by the Auditor-General. In addition, monthly financial reports are submitted to the Municipality so that it can monitor that expenditure is incurred according to the business plan.

How is an SRA funded?

An SRA is funded entirely from the levies paid by its members. It does not receive any subsidies from the Municipality, but does have the powers to raise additional loans and sponsorships.

In the case of Hermanus, the levies collected by the Municipality and paid over to HPP since 2002 have amounted to an additional 10% of the property rates paid by every ratepayer in the HPP area.

How is the SRA levy calculated?

The SRA management confirms the details of the database of property owners within the boundaries of the SRA, which is then linked by the Municipality to the municipal valuations according to the most recent general valuation roll.

The SRA management prepares an overall budget for the year based on the specific needs of the area. The individual levies are then calculated by dividing up the budget total according to the municipal valuations of each SRA member proportional to the total valuation of the SRA.

This levy is then expressed as a cent in the rand and is applicable over a financial year, which starts on 1 July every year.

The SRA budget and proposed levy have to be approved by the Municipality, and advertised for comments and objections prior to implementation on 1 July of every year.

How is the SRA levy collected?

The Municipality collects the levy on behalf of the SRA. The levy income goes to the SRA for the services it provides. It does not go to the Municipality, although they share an invoice to save on collection costs. Each month, the Municipality pays over a twelfth of the SRA budget.

Is the SRA levy mandatory for all properties within the SRA?

Yes. Once the Municipality has approved an SRA, the participation of all property owners within the boundaries of the SRA is mandatory.

How does the SRA budget work?

The SRA sets its own 3-year budget according to input from its members. The Municipality does not get involved in this process. Each year, the SRA board has to submit a detailed budget to the Municipality by 31 January. The proposed budget may not deviate materially from the approved business plan and three-year budget.

What if the valuation role changes within a financial year?

The valuation role is a snapshot at a point in time and it is used to calculate the cent-in-the-rand for the following financial year. However, municipal valuations can change within a financial year due to interim valuations, Valuation Court rulings, sub-divisions, rezoning or other technical adjustments. Should the valuation base decrease or increase substantially, the Municipality must inform the SRA in order to recalculate the levy.

Can my SRA levy be spent anywhere in the Municipality?

No, levy income is ring-fenced to be ploughed back exclusively into the SRA area.

How does the Municipality resolve levy arrears?

The Municipality provides the SRA board with a regular update of levy payments so that the board can assist in pursuing those who are in arrears. Defaulters are subject to the Municipality's credit control and debt collection policies. As such, they can have their water and electricity services suspended or their rates clearance certificates withheld.

Does the formation of an SRA mean that the Municipality can reduce the level and quality of its services?

No. The Municipality is obligated to sustain existing service levels. It has to conclude a Memorandum of Understanding with the SRA indicating the level of services to be provided by the municipality. This enables the SRA to decide on the 'top up' services required.

Do members have a say in an SRA?

Absolutely! Every property owner should register for membership of the Section 21 company once it has been established, attend annual general meetings, get involved in the election of board members and provide input in the SRA budget.